Supreme Court, U.S.
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No. ___

IN THE

Supreme Court of the United States

HALLMARK CARDS, INCORPORATED,
Petitioner,

v.

GROUP ONE LTD.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

The "on sale" bar, set forth in 35 U.S.C. § 102(b), precludes the patenting of an invention that was "on sale" more than one year before filing for a U.S. patent on the invention. This Court, in *Pfaff v. Wells Electronics Inc.*, 525 U.S. 55 (1998), recently clarified one prong of the on sale bar test—readiness for patenting—that must be satisfied to start the statutory one year grace period. The question presented relates to the other prong of the on sale bar test:

> Are the circumstances in which an invention is "on sale" within the meaning of 35 U.S.C. § 102(b) limited solely to "an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration)," as held by the Court of Appeals for the Federal Circuit below, or do such circumstances also include "commercial activity which does not rise to the level of a formal 'offer' under contract law principles," such as advertising and promotion, as the Federal Circuit had previously stated?

RULE 29.1 LISTING

Petitioner Hallmark Cards, Incorporated has the following non-wholly owned subsidiary: Crown Media Holdings, Inc.

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PETITION FOR A WRIT OF CERTIORARI

Hallmark Cards, Incorporated ("Hallmark") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The decision of the United States Court of Appeals for the Federal Circuit, reprinted at pages 4a-24a of the Appendix to this Petition ("App."), *infra*, is reported at 254 F.3d 1041. The decision of the United States District Court for the Western District of Missouri, reprinted at App. 25a-82a, *infra*, is unreported.

JURISDICTION

The United States Court of Appeals for the Federal Circuit entered judgment on June 15, 2001. The Court of Appeals denied a timely petition for rehearing en banc on August 8, 2001.

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

This case involves the following provision of the United States Code:

> A person shall be entitled to a patent unless—
>
> * * *
>
> (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States . . . .

35 U.S.C. § 102(b).

STATEMENT OF THE CASE

The on sale bar of 35 U.S.C. Section 102(b) precludes an inventor from securing a patent if the invention was "on sale" more than one year prior to the date of the U.S. patent application. This section allows inventors only one year in which to market an invention to determine its commercial viability before having to commit the resources needed to apply for a patent. At the same time, this section protects against an inventor extending the monopoly beyond the statutorily prescribed period. Prior on sale bar cases deciding which types of commercial activities triggered the start of the grace period focused, consistent with the plain language of the statute, on whether the invention was being made available for purchase to the public. The Federal Circuit, although acknowledging this general understanding of on sale bar jurisprudence, radically changed the on sale analysis to now require "an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration)" to trigger the one year grace period. Granting the writ

and reversing the Federal Circuit's decision will prevent the issuance of thousands of patents on inventions that have been marketed for years without patent applications being filed, and that were presumed by unsuspecting competitors not to be subject to patents.

Hallmark seeks review and reversal of this erroneous decision now to minimize the adverse effects of a later reversal on thousands of patent holders who will market their inventions on the basis of the Federal Circuit's erroneous decision only to later find out that they no longer have a valid patent.

1. The invention in issue is a machine to create curled ribbon and a related process to employ the machine to curl ribbon. U.S. Patent No. 5,518,492 (the '492 Patent) claims the machine to curl ribbon and U.S. Patent No. 5,711,752 (the '752 Patent) claims a process for curling ribbon using the machine of the '492 Patent.

Curled ribbon has been used to adorn gifts for decades. The process of ribbon curling is straightforward and well-known—pulling a piece of curlable ribbon across a sharp edge imparts a curl in the ribbon. This process has been mechanized by others dating back decades. (*See, e.g.*, A2318-21.)

2. Fredric Goldstein, Managing Director of Group One and the inventor of the patents in issue, claimed to have been thinking about the automation of the curling process as far back as 1989. (A1112.) Goldstein "put . . . into practice in 1990" a working prototype machine that could curl and shred ribbon and that contained the same elements as were claimed in the '492 and '752 Patents. (A1107-10.) By 1991, Goldstein also began to assemble a commercial model "that would be used to market the patent for royalty purposes." (A1108.) Goldstein created the commercial model, which was to

incorporate the same elements as the working prototype (A1110), so that he could prepare photographs and a video to assist in marketing and promoting the patents. (A1109.)

On or about June 27, 1991, Goldstein prepared patent sketches of his ribbon curling machine and sent them to his British patent attorney, Adrian Chettle. (A1115; A1133.) Goldstein sent more patent drawings to Chettle on September 11, 1991, October 16, 1991 and October 23, 1991. (*Id.*) On November 14, 1991, Goldstein filed a patent application for an automated ribbon curling device in the United Kingdom.

On November 12, 1992, Goldstein filed a patent application for an automated ribbon curling device in the European Patent Office under the Patent Cooperation Treaty (the "PCT Application") designating the United States as a State for application, relying on the U.K. Application for priority. (A1015-38.) Thus, the critical date for section 102(b) is November 12, 1991.[1]

Before November 12, 1991, Goldstein marketed on behalf of Group One the ribbon curling machine and/or technology that is the subject of the '492 and '752 Patents. For example, on June 24, 1991, Goldstein wrote to Hallmark,

> "We have developed a machine which can curl and shred ribbon so that Hallmark can produce the product you see inclosed [sic]—a bag of already curled and shredded ribbon."

(A1150.) Goldstein enclosed in the letter a bag of curled and shredded ribbon made by the prototype machine. (A1108.) In the same letter, Goldstein offered to sell either the machine

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[1] On May 20, 1996, Goldstein filed with the PTO a Continuation Application seeking a patent for a method of curling ribbon utilizing the device described in the '492 Patent. (A1072-75.) This application used the specification and drawings filed for the application that issued as the '492 Patent, and claimed the filing date of the application for the '492 Patent for purposes of filing date priority.

or the technology to make a machine with the price based on a royalty: "We could provide the machine and/or technology and work on a license/royalty basis." (A1150.)

On August 23, 1991, Goldstein again wrote to Hallmark:

> "Regarding the already curled and shredded ribbon, *I await news of interest so that we could discuss a license arrangement for the machine which can produce such a product.* We have been receiving huge interest in this product and have been offered contracts of exclusivity, which until now we have resisted. I mention this so that Hallmark would be aware of a potential obstruction, should we receive no interest from yourselves for a long period of time."

(A1152 (emphasis added).) The machine referred to in this letter is the same machine discussed in his June 24, 1991 letter, and was "based on the patent." (A1111-12.)

On October 14, 1991, Goldstein wrote yet again to Hallmark about the ribbon curling machine, stating: "I am of course very pleased about the positive reaction towards the already curled/shredded ribbon product idea. I look forward to hearing from the members of the team and will be pleased to work with them on this product regarding the machine involved." (A1153-54.)

In the summer of 1991, Goldstein also marketed his ribbon curling machine to other prospective customers, including American Greetings and other "major players in the market that sold ribbon" throughout the United States, Europe, and Asia. (A1112.) In that connection, on June 10, June 12 and August 15, 1991, Goldstein sent letters to three U.S. companies, C.M. Offray & Sons Inc., Berwick and Pioneer Balloon Company, respectively, offering his machine to them. (A1159-61; A1162-64; A1165-67.)

3. Group One filed an action in the District Court for the Western District of Missouri alleging, *inter alia*, that Hallmark infringed the '492 Patent and the '752 Patent. The

jurisdiction of the district court was invoked under 28 U.S.C. §§ 1338(a) and 1367(a). Hallmark pled as one of its affirmative defenses to infringement and as one basis for its counterclaim of invalidity and unenforceability to Group One's complaint that the patents were invalid based on the on sale bar.

Hallmark moved for summary judgment on the patent claims. Hallmark argued that the patents were invalid under the on sale bar because Group One commercialized the invention and it was ready for patenting more than one year before applying for a U.S. patent. Hallmark also argued that no reasonable jury could find that Hallmark's machines infringe Group One's '492 and '752 Patents.

The District Court granted summary judgment for Hallmark, finding the patents invalid based on the on sale bar because Group One's commercialization activities, while not rising to the level of a formal offer for sale under Missouri contract law, nevertheless were sufficient, consistent with prior Federal Circuit on sale bar jurisprudence, to start the one year grace period. (42a-52a.)

4. In a June 15, 2001 decision, the Court of Appeals for the Federal Circuit reversed and remanded the District Court's grant of summary judgment on the patent claims. In reversing the District Court, the Court of Appeals radically changed the governing principles previously enunciated in decisions by this Court and the Federal Circuit and regularly applied by trial courts around the country regarding what constitutes "on sale" activities sufficient to trigger the on sale bar. Disavowing as "non-binding dictum" its prior decision in *RCA Corp. v. Data Gen. Corp.*, 887 F.2d 1056, 1062, 12 USPQ2d 1449 (Fed. Cir. 1989) (*"RCA"*)—which stated that the on sale bar can be triggered by "commercial activity which does not rise to the level of a formal 'offer' under contract law principles"—the Court of Appeals announced a new test: "only an offer which rises to the level

of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b)." (14a.)

The Court of Appeals further held that the Uniform Commercial Code ("U.C.C.") provides the standard by which a court should determine whether an offer "rises to the level of a commercial offer for sale." (13a-14a.)

Because the conduct of Group One in repeatedly offering to sell its invention to Hallmark and others prior to the critical date in this case did not amount to a formal contract offer (and no one was sufficiently interested to buy Group One's product), the Court of Appeals reversed the District Court's grant of summary judgment in favor of Hallmark, even though such conduct would have triggered the on sale bar under its prior jurisprudence.

In light of its holding, the Federal Circuit refrained from deciding two additional arguments raised by Group One: 1) whether Group One's commercialization activities may be characterized, not as a sale of a machine or technology, but rather as a sale of rights to commercialize the patent, which the Federal Circuit had previously found to be exempt from the reach of the on sale bar in, *inter alia*, *Mas-Hamilton Group, Inc. v. LaGard Inc.*, 156 F.3d 1206 (Fed. Cir. 1998); and 2) whether the "ready for patenting" prong of the on sale bar test enunciated in *Pfaff* had been satisfied.[2]

5. This Petition for a Writ of Certiorari followed.

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[2] Despite not deciding those issues, a majority of the Court of Appeals nonetheless expressed in dicta its view that with respect to the first question that summary judgment was inappropriately granted by the District Court because of fact issues. (16a.)

REASONS FOR GRANTING THE WRIT

The petition should be granted for two important reasons. First, the question decided by the Federal Circuit is an important question of federal law that should be definitively decided by this Court. In adopting a U.C.C.-type contract analysis as the standard for application of the on sale bar, the Federal Circuit ignored prior expressions of this Court and others, including the Federal Circuit itself in *RCA*, dating back 150 years, which have emphasized any form of commercialization by the patent holder prior to the critical date—not a formal contract offer—as the touchstone for applying Section 102(b).

The Federal Circuit's new "on sale" test in its practical effect eviscerates the protections afforded the public by Section 102(b), which was designed by Congress to limit the ability of an inventor to extend the monopoly on an invention by delaying the filing of a patent application. This is an important question of federal law affecting the intellectual property rights of hundreds of thousands of patent holders, as well as those members of the public who are confronted with such patents, and thus should be decided by this Court.

Second, granting the petition is appropriate because the Federal Circuit's decision conflicts with this Court's reasoning in its recent decision in *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55. In *Pfaff*, the Court, in refining the second prong of the on sale bar, discarded a "reduction to practice" test—which was used to determine whether an invention was sufficiently complete so that commercialization activity regarding the invention would trigger the on sale bar—in favor of a more predictable test of when an invention was "ready for patenting." *Id.* at 67. The Federal Circuit below, addressing the first prong of the on sale bar, asserted that the *Pfaff* decision compelled the Federal Circuit's new test for what constitutes "on sale" activity (App. 11a-12a). In reality, *Pfaff* does not compel the decision below; instead *Pfaff*

suggests a *contrary* result. In *Pfaff*, this Court emphasized that any competitive exploitation of the invention is the triggering on sale event, with no suggestion whatsoever that such exploitation must be limited to a contractual offer. 525 U.S. at 67.

Furthermore, it is of imperative public importance for the Court to hear this case now rather than await a final judgment on the merits and further appeal. *See* Sup. Ct. R. 11. During the time in which this case will wend its way through the trial and appellate court levels to a point where this issue will once again be positioned for Supreme Court review, literally hundreds of thousands of patent applications will have been filed under the belief that inventors have much greater discretion to commercialize their inventions without triggering the on sale bar one year grace period. In the event the Court decides the issue raised here in favor of Hallmark at that later point, this belief will have been incorrect, and many of the patents issued on these inventions may become invalid because pre-critical date commercialization activities that would not have started the on sale bar clock under the Federal Circuit's new framework would suffice (again) to start the clock.

I. CERTIORARI IS WARRANTED BECAUSE THE TEST FOR TRIGGERING THE ON SALE BAR IS A VITALLY IMPORTANT QUESTION OF FEDERAL LAW AND HAS BEEN WRONGLY DECIDED BY THE FEDERAL CIRCUIT.

This Court recently recognized the public importance of decisions with respect to the on sale bar when it accepted the *Pfaff* case for review. In *Pfaff*, this Court adopted a two prong "bright line" test for application of the on sale bar and clarified with particularity the elements of the second prong of that test—whether the invention was "ready for patenting" prior to the critical date. 525 U.S. at 67-68. The case at bar

deals with the first prong of the *Pfaff* test—whether the invention was subject to a "commercial offer for sale" prior to the critical date. The Federal Circuit's decision requires this Court once again to step in and correct this important question of federal law.

Supreme Court correction is needed here because the Federal Circuit's decision is contrary to the plain language of Section 102(b), represents a significant departure from prior jurisprudence, and does not accord with the policies behind the statute. The plain, ordinary meaning of the statute supports the Federal Circuit's prior analysis in *RCA* over its new analysis. Section 102(b) bars patentability if an invention was "on sale" more than one year prior to the critical date. The plain meaning of the term "on sale" is "available for purchase." *See, e.g., Webster's Ninth New Collegiate Dictionary* 1037 (1983). The term "on sale" thus has a much broader meaning than the U.C.C. standard enunciated by the Court of Appeals (14a), and this broader meaning is consistent with the *RCA* formulation.

RCA espoused an on sale bar analysis which remained faithful to the plain meaning of the statute by focusing on commercializing activity:

> "The requirement of a definite offer . . . may be met by a patentee's commercial activity which does not rise to the level of a formal 'offer' under contract law principles . . . ."

887 F.2d at 1062. Following *RCA*'s reasoning, commercial activities demonstrating that an invention was "on sale," but which fell short of a contractual offer for sale, have been found by the lower courts to trigger the on sale bar. *See, e.g., Linear Tech. Corp. v. Micrel, Inc.*, 63 F. Supp. 2d 1103, 1125 (N.D. Cal. 1999) (promotional activities); *TRW Fin. Sys., Inc. v. Unisys Corp.*, 835 F. Supp. 994, 1003, 31 USPQ2d 1065 (E.D. Mich. 1993) (same).

Under the Court of Appeals' new framework, an inventor could now market an invention throughout the land by soliciting potential customers (as was found in the case at bar), attending trade shows, and even parroting verbatim the language of the statute—"My invention is on sale"—without triggering the on sale bar. The Court of Appeals acknowledged that activity of a clear commercial nature, such as "advertising and promoting of a product"—which, prior to its decision, would have been considered clear evidence that an invention was "on sale"—would not trigger the on sale bar. (15a.) Such a result flouts the literal language of the "on sale" bar. Indeed, this Court in *Pfaff* rejected the "reduction to practice" analysis of the on sale bar because it was a "nontextual argument" that had sprung from the single word "invention" and that was inconsistent with the literal language of the statute. *Pfaff*, 525 U.S. at 63. The Court of Appeals' decision here similarly—and improperly—uses a "nontextual argument" to explode from the simple statutory phrase "on sale" the entire body of Uniform Commercial Code contract principles.

Moreover, the Court of Appeals' new test will disserve the fundamental policies underlying the on sale bar that this Court focused on as long ago as 1829 in *Pennock v. Dialogue*, 2 Peters (27 U.S.) 1 (1829), and as recently as 1998 when it handed down *Pfaff*. This Court has noted that one of the policies underlying the on sale bar is to encourage the prompt and widespread availability of inventions to promote the progress of the sciences and arts:

> "While one great object was, by holding out a reasonable reward to inventors and giving them an exclusive right to their inventions for a limited period, to stimulate the efforts of genius; the main object was 'to promote the progress of science and useful arts;' and this could be done best, by giving the public at large a right to make,

> construct, use, and vend the thing invented, at as early a period as possible; having a due regard to the rights of the inventor."

Pennock, 2 Peters (27 U.S.) at 19 (1829) (quoting U.S. CONST. Art. I, § 8). The *Pennock* Court noted the need to limit pre-application use and sales to further this policy:

> "If an inventor should be permitted to hold back from the knowledge of the public the secrets of his invention; if he should for a long period of years retain the monopoly, and make, and sell his invention publicly, and thus gather the whole profits of it, relying upon his superior skill and knowledge of the structure; and then, and then only, when the danger of competition should force him to secure the exclusive right, he should be allowed to take out a patent, and thus exclude the public from any farther use than what should be derived under it during his fourteen years; it would materially retard the progress of science and the useful arts, and give a premium to those who should be least prompt to communicate their discoveries."

Id.

In the above passage, the *Pennock* Court also emphasized another policy underlying the on sale bar: prohibiting the inventor from commercially exploiting his invention beyond the statutorily prescribed time. *See Elizabeth v. American Nicholson Pavement Co.*, 97 U.S. 126, 137 (1877) ("Any attempt to use [the invention] for a profit, and not by way of experiment, for a longer period than two years before the application, would deprive the inventor of his right to a patent."); *see also Pennock*, 2 Peters (27 U.S.) at 12-13.

Until the decision in the instant case, the Federal Circuit had continued to adhere to these well-settled policies. *E.g.*, *In re Mahurkar*, 71 F.3d 1573, 1577 (Fed. Cir. 1995). The Court of Appeals' new approach, however, conflicts head on with these policies. The public will consider an invention

part of the public domain based on widespread commercialization activities, such as promotion and advertising; the public likely would not even know whether U.C.C. offers for sale have been made to potential customers. Moreover, because U.C.C. offers for sale typically come *after* promotional activities and not before, the Court of Appeals' new formulation will tend to allow an inventor to delay the time at which he or she chooses to disclose the invention through the patent process, and will further extend the statutorily prescribed time in which to patent the invention. There is no reason in the policies underlying the on sale bar to treat, as the Federal Circuit has, this case any differently from another case where an offer was made but not accepted, *Scaltech, Inc. v. Refac/Tetra, L.L.C.*, 2001 U.S. App. LEXIS 22701, at *18 (Fed. Cir. Oct. 23, 2001), merely because the offer in *Scaltech* included a price quote and was "firm for 90 days." In both cases, the inventors tried, and failed, to sell an invention to potential customers.

Congress has, of course, decided that the one-year grace period contained in Section 102(b) is sufficient to protect inventors who wish to test the commercial viability of their inventions before spending money on a patent application. In fact, in the Patent Act of 1939, Congress reduced the statutory grace period from two years to one year because it perceived that the two year period "appear[ed] unduly long and operate[d] as a handicap to industry." H.R. Rep. No. 961, 76th Cong., 1st Sess. 1 (1939); S. Rep. No. 876, 76th Cong., 1st Sess. 1 (1939) (same). Providing any grace period comes at the expense of the general public because it extends the time in which the patent monopoly operates. *See Pfaff*, 525 U.S. at 64 ("[Section] 102 of the Patent Act serves as a limiting provision, both excluding ideas that are in the public domain from patent protection and confining the duration of the monopoly to the statutory term.")

Under a formal contract law-based analysis, the one-year grace period that the statute provides will no doubt be extended significantly. For example, one could simply run ads in a trade magazine until succeeding in making a sale years later. Under the Federal Circuit's decision, a house with a "For Sale" sign in front would not be "on sale," and the same would be true if such a sign were placed in front of an invention. The Federal Circuit's new test effectively would collapse the "on sale" bar into the "sold" bar.

Finally, the Court of Appeals did not identify any countervailing policy, and none is apparent, for allowing an inventor to engage in unlimited commercialization activity that does not amount to a formal contract offer, to be followed by a one year period of U.C.C.—contract type conduct. Certainly, if such a need exists, the authority to make such a change in the law rests with Congress and not the Federal Circuit.

II. CERTIORARI IS WARRANTED BECAUSE THE COURT OF APPEALS' DECISION IS CONTRARY TO THIS COURT'S REASONING IN *PFAFF*.

Supreme Court review is warranted to conform on sale jurisprudence with its recent decision in *Pfaff*. The Court of Appeals fundamentally misapprehended *Pfaff* when it held that the "commercial offer for sale" prong of the *Pfaff* test could only be satisfied by a formal contract offer. Indeed, the Court of Appeals stated that the *Pfaff* decision required its change in course. The *Pfaff* decision, however, requires no such change, and the Court of Appeals' new test actually conflicts with the reasoning of *Pfaff*.

In *Pfaff*, this Court decided the issue of whether a patent should be invalid under the "on sale" bar of Section 102(b) where the invention was "first marketed commercially" more than one year prior to the filing of the patent application, but

where the invention had not yet been reduced to practice by that date. 525 U.S. at 67. In deciding that the on sale bar invalidated the patent, the Court rejected the previously employed "reduction to practice" analysis and established a new test: prior to the critical date (1) was the product embodying the invention "the subject of a commercial offer for sale," and (2) was the invention "ready for patenting." *Id.*

While this Court focused its analysis on the second prong of the test, it nonetheless articulated a standard with respect to the "commercial offer for sale" prong that is directly at odds with the Court of Appeals' decision here. In its discussion of the "commercial offer for sale" prong of the on sale bar, this Court emphasized that any *competitive exploitation of the invention* is the triggering on sale event, with no suggestion whatsoever that such exploitation must be limited to a contractual offer. Thus, the Court used the phrases "first commercial marketing" and "first marketed commercially" to describe conduct that would satisfy a "commercial offer for sale." 525 U.S. at 67. The Court quoted approvingly from its prior decision in *Elizabeth v. American Nicholson Pavement Co.*, 97 U.S. at 137, and the opinion of Learned Hand in *Metallizing Eng'g Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 520 (2d Cir. 1946):

> "[I]t is a condition upon an inventor's right to a patent that *he shall not exploit his discovery competitively* after it is ready for patenting; he must content himself with either secrecy, or legal monopoly."

525 U.S. at 68 (emphasis supplied). There was no suggestion that an inventor's "commercial marketing," "exploit[ation of] his discovery competitively," or "attempt to use his invention for profit" were only synonymous with a contractual offer for sale under the Uniform Commercial Code; in fact, this Court's "commercial marketing" and "exploitation" language strongly suggests that less formal commercial activity starts the clock on the grace period.

The Court of Appeals apparently inferred that the use of the word "commercial" in front of "offer" meant that this Court equated "commercial" with "contractual" and thereby signaled a departure from prior jurisprudence, according to which "it was believed that something less than an offer to sell as understood in general commercial transactions was sufficient to trigger the on sale bar." (11a.) The *Pfaff* Court, however, used the term "commercial" only to distinguish prohibited offers from experimental activity. 525 U.S. at 67 ("[T]here is no question that the sale was commercial rather than experimental in character.").

For all of its upset in settled law, the Federal Circuit's new test does not even deliver on its promise of a bright-line test. The new analysis of when an invention is "on sale" will not promote certainty, and in its practical application will detract from this goal. Under the prior analytical framework, an inventor and the public had the ability to understand the threshold triggering the start of the on sale bar clock. Discussions with potential customers, participation at trade shows, making advance sales calls all were to be expected to start the clock running, *see, e.g., General Elec. Co. v. United States*, 206 USPQ 260, 269-70 (Ct. Cl. Tr. Div. 1979); *Aoki Technical Lab., Inc. v. FMT Corp.*, 26 F. Supp. 2d 319, 325 (D.N.H. 1998); *Strong v. General Elec. Co.*, 434 F.2d 1042, 1043-44, 168 USPQ 8 (5th Cir. 1970), while internal preparations for marketing were not expected to start the clock. *See Intel Corp. v. U.S. Int'l Trade Comm'n*, 946 F.2d 821, 830 (Fed. Cir. 1991). The triggering activities all had a common denominator—they told the public that the invention was "on sale"—*i.e.*, it was "available for purchase." The Federal Circuit's new analysis eviscerates any semblance of public notice because the public typically would not be privy to proposals and offers of the type that would trigger the bar.

Moreover, the Court of Appeals' new formulation offers no certainty to an inventor in determining which actions would trigger the bar in a particular circumstance, even where the

inventor is in full possession of the salient facts. Each fact pattern would be viewed from the perspective of whether a U.C.C.-type contract could be created by acceptance of the inventor's offer. Indeed, the Court of Appeals itself acknowledges the complexity of the task:

> "We do not mean to suggest that it will always be easy to ascertain whether a set of interactions between parties constitutes a commercial offer to sell. Nor do we propose to offer rules or even binding guidance for making such determinations, which offer would be little more than obiter dicta. . . . In any given circumstance, who is the offeror, and what constitutes a definite offer, requires looking closely at the language of the proposal itself."

(14a-15a.)

One of the very same commentators on whom the Court of Appeals relies to support the promise of greater certainty actually disavows the notion that determining whether a contractually binding offer has been made is susceptible to a bright-line test:

> "The determination of whether a certain communication by one party to another is an operative offer, and not merely an inoperative step in the preliminary negotiation, is a matter of interpretation in the light of all the surrounding circumstances.
>
> "Since two cases are never identical in the exact words used, in the existing relations and history of the parties, in the circumstances surrounding the communication, the decision made in one case can never be regarded as a conclusive precedent for the other."

1 Arthur Linton Corbin, *Corbin on Contracts* § 2.2 at 105-06 (Rev. Ed. 1993). This uncertainty is exacerbated by the lack of clear standards as to what constitutes the federal common law to be applied to the facts.

Thus, to the extent that the Court of Appeals' goal is increased certainty—regardless of its lack of statutory support—its new formulation is at cross-purposes to that goal.

CONCLUSION

The Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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November 5, 2001

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

[Filed Aug. 8, 2001]

00-1014

GROUP ONE, LTD.,
Plaintiff-Appellant,

v.

HALLMARK CARDS, INCORPORATED,
Defendant-Appellee.

ORDER

A petition for rehearing en banc having been filed by the APPELLEE, and a response thereto having been invited by the court and filed by the APPELLANT, and the matter having first been referred as a petition for rehearing to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on August 15, 2001.

FOR THE COURT,

/s/ Jan Horbaly
JAN HORBALY
Clerk

Dated; August 8, 2001

cc: Richard S. Clark
Norman C. Kleinberg

GROUP ONE LTD V HALLMARK CARDS INC, 00 1014
(DCT—97-CV-1224)

APPENDIX B

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

[Filed Aug. 8, 2001]

00-1014

GROUP ONE, LTD.,
Plaintiff-Appellant,

v.

HALLMARK CARDS, INCORPORATED,
Defendant-Appellee.

ORDER

A petition for rehearing having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the APPELLEE,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED.

The mandate of the court will issue on August 15, 2001.

FOR THE COURT,

/s/ Jan Horbaly
JAN HORBALY
Clerk

Dated: August 8, 2001

cc: Richard S. Clark
Norman C. Kleinberg

GROUP ONE LTD V HALLMARX CARDS INC, 00 1014
(DCT—97-CV-1224)

APPENDIX C

UNITED STATES COURT OF APPEALS,
FEDERAL CIRCUIT.

No. 00-1014.

GROUP ONE, LTD.,
Plaintiff-Appellant,

v.

HALLMARK CARDS, INCORPORATED,
Defendant-Appellee.

June 15, 2001.

Before LOURIE, *Circuit Judge*, PLAGER, *Senior Circuit Judge*, [**] and GAJARSA, *Circuit Judge*.

PLAGER, *Senior Circuit Judge*.

In this patent case, Group One Ltd. ("Group One") sued Hallmark Cards, Inc. ("Hallmark") for infringement of two patents, U.S. Patent No. 5,518,492 (the " '492 patent"), directed to a machine for producing curled and shredded ribbon for decorative packaging, and U.S. Patent No. 5,711,752 (the " '752 patent"), directed to a method for producing the curled and shredded ribbon. Group One also claimed that Hallmark had earlier misappropriated its trade secrets regarding the curling and shredding machine and method. Hallmark counterclaimed for a declaratory judgment that Group One's '492 patent was invalid and unenforceable.

[**] Judge Plager assumed senior status on November 30, 2000.

Ruling on summary judgment, the district court, Judge Dean Whipple, found that Group One's communications with Hallmark more than one year before the filing date of the application for the '492 patent constituted an offer for sale, and therefore the patent was invalid under 35 U.S.C. § 102(b). *Group One Ltd. v. Hallmark Cards, Inc.*, No. 97-1224-CV-W-1 (W.D.Mo. Sept. 2, 1999). The district court also ruled that Group One's trade secrets ceased to be such on the date on which Group One's Patent Cooperation Treaty ("PCT") patent application was published, and therefore misappropriation damages were limited to any "head-start" advantage Hallmark obtained by using the trade secrets between the date Group One disclosed them to Hallmark and the date the PCT application was published. *Group One Ltd. v. Hallmark Cards, Inc.*, No. 97-1224-CV-W-1 (W.D.Mo. July 29, 1999). Group One subsequently stipulated that it could not prove any such damages, and the misappropriation counts were therefore dismissed. The district court also granted Hallmark's motion for summary judgment on its counterclaim.

Group One appeals the rulings to this court. We affirm the district court's judgment regarding the trade secret issue. However, because we are unable to agree with the district court's analysis of the on-sale bar issue, we reverse that part of the judgment and remand to the district court for further proceedings. The grant of the counterclaim, based on the on-sale bar, falls with it; the judgment on the counterclaim is vacated.

BACKGROUND

Group One is a corporation registered in the United Kingdom. The Managing Director and sole beneficial shareholder of Group One is Frederic Goldstein, a United States citizen residing in Sweden. Goldstein is the named inventor on the '492 patent and the '752 patent. Hallmark

is a Missouri corporation headquartered in Kansas City, Missouri.

On November 14, 1991, Goldstein filed a patent application in the United Kingdom for an automated ribbon curling and shredding device. On November 12, 1992, Goldstein filed a patent application with the European Patent Office under the Patent Cooperation Treaty ("PCT"), designating, among other countries, the United States. Pursuant to the PCT, this application was published on May 27, 1993, 18 months after the filing date in the United Kingdom. Goldstein subsequently filed a U.S. patent application corresponding to the PCT application on May 13, 1994. This application eventually issued as the '492 patent on May 21, 1996. A continuation of this U.S. application issued as the '752 patent on January 27, 1998.

The '752 patent claims a method for curling and shredding ribbon on a mass basis, and the '492 patent claims a machine for performing the method. Prior to Goldstein's conception, ribbon had been sold in a form that was suitable for curling, but was not so curled until curled by the consumer. Goldstein perceived a market for pre-curled ribbon—for use, for example, as filler in a gift package or gathered in a bow—and conceived the inventions of the '492 patent and '752 patent to exploit that market.

Before filing his PCT application, Goldstein attempted to generate interest in his device, commencing a series of communications with Hallmark (and others). On June 24, 1991, he wrote to Hallmark: "We have developed a machine which can curl and shred ribbon so that Hallmark can produce the product you see enclosed—a bag of already curled and shredded ribbon. . . . We could provide the machine and/or the technology and work on a license/royalty basis." Hallmark expressed some interest, and the parties continued their correspondence.

Hallmark and Goldstein arranged a meeting to discuss details of the curling and shredding machine for February 17, 1992. Prior to the meeting, the parties negotiated a Confidential Disclosure Agreement ("CDA") regarding the technology to be discussed at the meeting. However, despite essential agreement on the terms of the CDA, Hallmark never signed it. On February 14, 1992, shortly before the scheduled meeting, Goldstein had a telephone conference with a Hallmark engineer, in which the parties discussed details of Group One's machine and method. At the time, Goldstein had signed the CDA and (incorrectly) believed it to be in effect. Hallmark then cancelled the planned February 17 meeting, deciding it would instead evaluate its own internal capability of producing a curling and shredding machine.

On June 6, 1992, Hallmark sent a letter to Goldstein indicating that it had "developed our own machine for curling and shredding ribbon, and therefore we are not presently interested in purchasing such a machine from your firm." The letter went on to state "we would like to thank you[r] firm for suggesting the curled ribbon product to us by paying you $500." Apparently anticipating a claim of misappropriation, the letter specifically pointed out that Hallmark had never signed the CDA "pending our internal consider-ation of such product," and requested that Goldstein sign a release "on account of our use of the curled ribbon idea" in return for the $500 payment. The letter makes no mention of the telephone conference of February 14, 1992 or the information Hallmark obtained during the conference. Goldstein declined the $500 and did not sign the release.

According to Hallmark, the company temporarily abandoned the project and did not again begin developing a fully suitable curling and shredding machine until April 1994. Sometime in March or April 1995, it began producing its "Curl Cascade" product, which is a clump of curled ribbon attached to a card, and its "Curl Fill" product, which is a gift-

bag stuffing comprised of strands of curled ribbon. The machine used to make these products, the Curl Cascade machine, is the subject of the present suit.

On August 4, 1997, Group One filed suit in the Western District of Missouri. The final amended complaint had four counts, two for patent infringement and two relating to theft of trade secrets. Count I alleged infringement of the '492 patent and Count II alleged infringement of the '752 patent. Count III alleged misappropriation of trade secrets, and Count IV claimed unjust enrichment due to the misappropriation.

With respect to the patent counts, Hallmark moved for summary judgment of invalidity under 35 U.S.C. § 102(b), on the grounds that the patented machine and method had been "on sale" more than one year prior to the filing date of the application. Under 35 U.S.C. § 363, the United States filing date, for § 102(b) purposes, of a patent application filed under the PCT in which the United States is designated, is the date of the PCT application—in this case, November 12, 1992. Thus the "critical date" is November 12, 1991.

The court concluded that, while the pre-critical-date communications between Group One and Hallmark did not constitute a formal offer for sale in the contract sense, they did constitute an offer for sale in the § 102(b) on-sale bar context. The court therefore ruled that the '492 patent and the '752 patent were invalid, and dismissed the patent counts.

The district court also decided the trade secret counts. Ruling on Hallmark's motion for summary judgment, the district court noted that Hallmark did not deny the existence of trade secrets or a confidential relationship between Hallmark and Group One. Hallmark did argue that the relationship was governed by the CDA, but the district court rejected this contention because Hallmark had never signed the CDA. The district court concluded that under Missouri common law (which the parties agreed applied, since

Missouri did not adopt the Uniform Trade Secrets Act until 1995, and the adoption was specifically not to be applied retroactively), any possible misappropriation ended with the publication of the PCT application on May 27, 1993. After this date, the information was no longer secret because it had been made available to the public. The district court did rule, however, that Group One could recover for any "head-start" advantage gained by Hallmark because it had improperly used the confidential information during the period prior to the PCT publication date. Group One subsequently stipulated that it could prove no such damages and the trade secret counts were also dismissed.

Group One now appeals the rulings by the district court, alleging that the court erred in declaring its patents invalid and in limiting its recovery for Hallmark's misappropriation of its trade secrets to pre-publication head-start damages. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

DISCUSSION

I.

In reviewing a district court's grant of summary judgment, we must make an independent determination as to whether the standards for summary judgment have been met. *Conroy v. Reebok Int'l, Ltd.*, 14 F.3d 1570, 1575, 29 USPQ2d 1373, 1377 (Fed.Cir.1994). We view the evidence in a light most favorable to the non-movant, and draw all reasonable inferences in its favor. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986); *SRI Int'l v. Matsushita Elec. Corp.*, 775 F.2d 1107, 1116, 227 USPQ 577, 581 (Fed.Cir.1985) (en banc). A motion for summary judgment is properly granted if there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law. Fed.R.Civ.P. 56(c).

II.

A.

"A person shall be entitled to a patent unless . . . (b) the invention was . . . on sale in this country, more than one year prior to the date of the application for patent in the United States." 35 U.S.C. § 102(b). Application of the on-sale bar is a question of law, and we review the district court's ultimate conclusion of invalidity without deference. *Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp.*, 182 F.3d 888, 889, 51 USPQ2d 1470, 1471 (Fed.Cir.1999). An accused infringer, challenging a presumptively valid patent, *see* 35 U.S.C. § 282, must demonstrate by clear and convincing evidence that "there was a definite sale or offer to sell more than one year before the application for the subject patent, and that the subject matter of the sale or offer to sell fully anticipated the claimed invention." *UMC Elecs. Co. v. United States*, 816 F.2d 647, 656, 2 USPQ2d 1465, 1472 (Fed.Cir.1987). Since all agree there was no sale of the invention before the critical date, the question is whether there was an offer to sell it.

B.

In the case before us, the district court reviewed the correspondence between Group One and Hallmark to determine whether Group One had made a "definite . . . offer to sell" the subject matter of the '492 and '752 patents. It concluded that the correspondence did not rise to a formal offer in the contract sense, but that Group One had nevertheless made an offer for sale that was sufficiently definite to give rise to the on-sale bar.

In reaching this conclusion, the district court relied heavily on language in *RCA Corp. v. Data General Corp.*, 887 F.2d 1056, 12 USPQ2d 1449 (Fed.Cir.1989). In *RCA*, this court stated:

> RCA is correct that, where there is no sale, a definite offer to sell is an essential requirement of the on-sale bar; however RCA misinterprets that requirement. The requirement of a definite offer excludes merely indefinite or nebulous discussions about a possible sale. While this requirement may be met by a patentee's commercial activity which does not rise to the level of a formal "offer" under contract law principles, a definite offer in the contract sense clearly meets this requirement.

Id. at 1062, 12 USPQ2d at 1154 (citations omitted).

In *RCA,* the court found that the offer at issue could have been "accepted" and therefore was in fact an offer in the contract sense, thus meeting the criterion stated in the first sentence quoted above (as well as in the last clause of the third sentence). *Id.* The further assertion, in the first part of the third sentence, to the effect that an offer for sale need not "rise to the level of a formal 'offer' under contract law principles," was unnecessary to the decision in the case, and thus is non-binding *dictum.* Moreover, the parties have cited no other Federal Circuit cases since *RCA* that have actually found an offer to be an offer for sale for § 102(b) purposes unless the offer was a formal offer in the contract sense. In short, there is no binding precedent in this circuit that requires us to accept something less than an offer to contract as constituting an offer for sale as that term is construed for purposes of the on-sale bar of 35 U.S.C. § 102(b).

Furthermore, to the extent it was believed that something less than an offer to sell as understood in general commercial transactions was sufficient to trigger the on-sale bar, it is likely that such belief can no longer be the law. The Supreme Court in *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 119 S.Ct. 304, 142 L.Ed.2d 261, 48 USPQ2d 1641 (1998), swept away this court's "totality of the circumstances" analysis of the on-sale bar and replaced it with a two-part test: "First, the

product must be the subject of a commercial offer for sale. . . . Second, the invention must be ready for patenting." *Id.* at 67, 119 S.Ct. 304, 48 USPQ2d at 1646-47. Though the Court did not elaborate on what was meant by "a *commercial* offer for sale"—the issue not being directly presented—the language used strongly suggests that the offer must meet the level of an offer for sale in the contract sense, one that would be understood as such in the commercial community. Such a reading leaves no room for "activity which does not rise to the level of a formal 'offer' under contract law principles." [1]

Applying established concepts of contract law, rather than some more amorphous test, implements the broad goal of *Pfaff*, which, in replacing this court's "totality of the circumstances" test with more precise requirements, was to bring greater certainty to the analysis of the on-sale bar. *See* 525 U.S. at 65-66 & n. 11, 119 S.Ct. 304, 142 L.Ed.2d 261, 48 USPQ2d at 1646 & n. 11. Courts are quite accustomed to and comfortable with determining whether a particular communication or series of communications amounts to an offer in the contract sense, and that type of determination is well established in law. In contrast, the *dictum* test suggested in *RCA*, under which something less than a formal commercial offer could still be an offer for purposes of the

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[1] For recent commentary on this point, see William C. Rooklidge & Russell B. Hill, *The Law of Unintended Consequences: The On Sale Bar After Pfaff v. Wells Electronics*, 82 J. Pat. & Trademark Off. Soc'y 163, 174-75 (2000) ("If [*Pfaff*'s] 'commercial offer for sale' is read to mean a formal offer in the contract sense, then *RCA* and its progeny are in jeopardy. . . . [This reading may prevail given that *Pfaff*'s] discussion of the offer to sell focuses on the elements of formal offer in the contract sense, rather than on the less formal activities as discussed in *RCA*."); Katherine Kelly, *Cases and Recent Developments/Patents*, 8 Fed. Cir. B.J. 57, 74 (1999) ("Still open for debate is whether the 'subject of a commercial offer for sale' prong of *Pfaff* will be interpreted as requiring an offer of specific contractual terms, or whether it will be applied more broadly.").

on-sale bar, opens up a vast sea of uncertainty, and requires a whole new mode of analysis, one whose parameters remain ill-defined.

In the case before us, the district court first considered whether the correspondence between the parties, prior to the critical date, amounted to an offer in the formal, commercial contract sense. It analyzed the issue under Missouri law and concluded that the correspondence between Group One and Hallmark did not amount to an offer in the commercial contract sense. The district court based its conclusion on the indefinite nature of the communications between the parties and the lack of specific terms such as price and quantity, finding that these factors suggested preliminary proposals or invitations to negotiate, rather than a formal offer. However, the district court then went on to find that, under the *RCA* formulation, the correspondence nonetheless constituted a sufficient offer for sale for purposes of § 102(b), and therefore invalidated the patent.

In the first place, the court erred in applying the law of Missouri to the question. Because of the importance of having a uniform national rule regarding the on-sale bar, we hold that the question of whether an invention is the subject of a commercial offer for sale is a matter of Federal Circuit law, to be analyzed under the law of contracts as generally understood. To hold otherwise would potentially mean that a patent could be invalid in one state, when the patentee's actions amounted to an offer under the laws of that state, and valid in a second state, when the same actions did not amount to an offer under the laws of that second state. Such a result is clearly incompatible with a uniform national patent system.

As a general proposition, we will look to the Uniform Commercial Code ("UCC") to define whether, as in this case, a communication or series of communications rises to the level of a commercial offer for sale. As this court has previously pointed out, "[t]he UCC has been recognized as

the general law governing the sale of goods and is another useful, though not authoritative, source in determining the ordinary commercial meaning of" terms used by the parties. *Enercon GmbH v. Int'l Trade Comm'n*, 151 F.3d 1376, 1382, 47 USPQ2d 1725, 1729 (Fed.Cir.1998). The Supreme Court's formulation of a "*commercial* offer for sale" in *Pfaff* also supports consulting the UCC. The Supreme Court has also cited the Restatement of Contracts with approval in the commercial contract law context. *See Mobil Oil, Inc. v. United States*, 530 U.S. 604, 606-10, 120 S.Ct. 2423, 2429-30, 147 L.Ed.2d 528 (2000).

After reviewing the district court's contract analysis under Missouri law and the proper analysis under these generally understood rules governing contracts, we conclude that the district court's error in this case is harmless. We perceive no meaningful difference in the court's analysis under Missouri law and the analysis that would pertain under these general sources. Here, the district court used the UCC as one of its guides in reaching its conclusions on this point. Our analysis of the facts leads us to the same conclusion reached by the district court—the correspondence and other interactions between Group One and Hallmark prior to the critical date did not add up to a commercial offer to sell the invention, an offer, for example, which Hallmark could have accepted.

As noted, the district court then went on and found that, under the *RCA* formulation, the correspondence nonetheless constituted a sufficient offer for sale for purposes of § 102(b), and therefore invalidated the patent. For the reasons explained, this conclusion was incorrect as a matter of law. Only an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b).

We do not mean to suggest that it will always be easy to ascertain whether a set of interactions between parties

constitutes a commercial offer to sell. Nor do we propose to offer rules or even binding guidance for making such determinations, which offer would be little more than *obiter dicta*. We do note in passing that contract law traditionally recognizes that mere advertising and promoting of a product may be nothing more than an invitation for offers, while responding to such an invitation may itself be an offer. *Restatement (Second) of Contracts* § 26 (1981). In any given circumstance, who is the offeror, and what constitutes a definite offer, requires looking closely at the language of the proposal itself. Language suggesting a legal offer, such as "I offer" or "I promise" can be contrasted with language suggesting more preliminary negotiations, such as "I quote" or "are you interested." Differing phrases are evidence of differing intent, but no one phrase is necessarily controlling. *Id.* §§ 24, 26. Fortunately, as earlier noted, there is a substantial body of general contract law, widely shared by both state and federal courts, to which courts can resort in making these determinations. *See generally, e.g.*, Arthur Linton Corbin, *Corbin on Contracts* (1964); John D. Calamari & Joseph M. Perillo, *The Law of Contracts*, (4th ed.1998).

On appeal here, the parties do not dispute the conclusion by the district court, with which we agree, that no such commercial offer to sell was made. Rather, they focus on whether the correspondence meets the lesser *RCA* standard. As we have said, that no such commercial offer was made disposes of the matter. Thus, because there was no commercial offer for sale, the patent cannot be invalid under the on-sale bar of § 102(b).

Group One raises an alternative theory for why there is no on-sale bar in this case. Group One contends that it was offering only to license the patent to Hallmark, and was not offering to license or sell the invention as such. There is precedent in this court to the effect that a sale of rights in a patent, as distinct from a sale of the invention itself, is not

within the scope of the statute, and thus does not implicate the on-sale bar. *See Mas-Hamilton Group v. LaGard, Inc.*, 156 F.3d 1206, 1216, 48 USPQ2d 1010, 1019 (Fed.Cir.1998) (citing *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1267, 229 USPQ 805, 809 (Fed.Cir.1986)). Hallmark counters that the correspondence demonstrates that Group One was actually offering to license (*i.e.*, sell rights to use) the machine itself, and not just rights in the patent on the machine.

The various documents that passed between the parties leave the answer to this conundrum unclear. The district judge concluded that Group One's efforts were for the purpose of selling Goldstein's invention—either his machine or the technology to build his machine—and not an effort to sell rights to his patent. The district judge erred in deciding this disputed question of fact on summary judgment. Further, even treating the matter as properly decided on summary judgment, we must view the evidence in a light most favorable to the non-movant; in that light, we are inclined to the view that Group One's understanding of the transaction must prevail for purposes of the summary judgment analysis.

Be that as it may, our disposition of the on-sale bar issue as explained above relieves us of having to further address this question.[2] Similarly, we need not address Group One's

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[2] In his "Additional Remarks," Judge Lourie discusses the relationship between a "license," which he attributes uniquely to rights in a patent, and a "sale," which he views as any transaction related to the invention itself, which in this case is a machine. Of course, a sale of an interest that entitles the purchaser to possession and use of the machine, unrelated to any patent present or future, could be couched as a "license"; such labeling would not prevent the transaction from triggering the on-sale bar, all other requirements being met. His conclusion that the proposal here was with regard to a license under the eventual patent is consistent with our giving Group One the benefit of the doubt on summary judgment, though it is not an issue we need or can decide on appeal.

contention that the offer failed the second prong of *Pfaff*, namely that the invention was not "ready for patenting" at the time the supposed offer was made. *Pfaff*, 525 U.S. at 67, 119 S.Ct. 304, 142 L.Ed.2d 261, 48 USPQ2d at 1647.

We therefore reverse the district court's judgment that the patent was invalid under 35 U.S.C. § 102(b) because the invention was on sale more than one year before the filing date of the application for patent. The summary judgment in favor of Hallmark on the counterclaim, based on the same grounds, is accordingly vacated. The matter is remanded for further proceedings consistent with this opinion. We note that the district court in its thorough opinion presented its claim construction determination, but the parties' briefs have not discussed this construction and therefore we will not address that matter here.

III.

A.

Group One's trade secret claims are governed by state law. In the present case, the parties agree that the relevant law is that of Missouri, and the district court applied Missouri law. Missouri adopted the Uniform Trade Secrets Act in 1995, but the Act specifically states: "With respect to a continuing misappropriation that began prior to August 28, 1995, [the Act] shall not apply to the continuing misappropriation that occurs after such date." Mo.Rev.Stat. § 417.467. Since all relevant acts in the present case began before that date, Missouri common law applies.

B.

The key dispute between the parties is what view Missouri takes of trade secret law. Group One urges what it calls an "equitable" theory, and which the district court called the "relationship" theory. Under this theory, the harm being remedied is the misappropriation itself—in this case, Hallmark's use of Group One's confidential disclosures to

construct its Curl Cascade machine—which is a violation of the confidential relationship. The subsequent publication of the formerly secret material is deemed irrelevant unless the misappropriating party becomes aware of the publication and relies on that publication, rather than on the confidential disclosure. In the present case, Hallmark does not contest that it did not learn of the published PCT application until this litigation, well after it designed its machine. Under these facts, according to Group One, Hallmark should be liable for its misappropriation.

Group One relies primarily on *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219, 216 USPQ 89 (7th Cir.1982). In *Goldberg*, the Seventh Circuit, interpreting Minnesota law, put the focus on the breach of confidence, rather than encroachment on a property right. The court followed previous decisions in Minnesota and other jurisdictions that it read as holding:

> [T]he existence of public disclosures is relevant only so far as the defendant actually relied upon them. . . . [O]ne who breaches an obligation of confidence and uses confidential information to the owner's detriment is liable despite the fact that the information could have been lawfully obtained.

Id. at 1227, 686 F.2d 1219, 216 USPQ at 94-95 (citing, *inter alia*, *Servo Corp. of Am. v. Gen. Elec. Co.*, 393 F.2d 551, 555 (7th Cir.1968)). Also to the same effect is *Smith v. Dravo Corp.*, 203 F.2d 369, 375, 97 USPQ 98, 102-03 (7th Cir.1953) ("[T]he mere fact that such lawful acquisition was available does not mean that [a defendant] may, through breach of confidence, gain the information in usable form and escape the efforts of inspection and analysis." (applying Pennsylvania law)).

Hallmark, on the other hand, urges a more strict interpretation of what constitutes a trade secret. According to Hallmark, once formerly secret material is published, it ceases to be a secret, and therefore it cannot be mis-

appropriated—regardless of whether the party accused of misappropriation was aware of the publication. (The district court referred to this view as the "property" theory of trade secrets.) Absent a protectable trade secret, Hallmark can have no liability.

Hallmark points out that the Supreme Court of Minnesota specifically criticized *Goldberg* 's interpretation of Minnesota law, stating "we disagree with the holding in *Goldberg* . . . ." *Electro Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 897 n. 5, 220 USPQ 811, 816 n. 5 (Minn.1983). Furthermore, the Supreme Court of Pennsylvania rejected *Smith v. Dravo* 's interpretation of Pennsylvania law, stating:

> We feel that the authorities holding that public disclosures destroy plaintiff's right to maintain a cause of action to preserve his trade "secret" as against a competing former employee who has violated a duty of confidence are more sound in theory and practice than those continuing to look to the relationship of the parties as a basis for the action. . . . The starting place in every case of this sort is not whether there was a confidential relationship, but whether, in fact, there was a trade secret to be misappropriated.

Van Prods. Co. v. Gen. Welding & Fabricating Co., 419 Pa. 248, 213 A.2d 769, 780, 147 USPQ 221, 229 (Pa.1965) (footnote omitted). Hallmark also suggests that Missouri law follows these decisions rejecting the *Goldberg* formulation.

The district court was unable to find any Missouri law that was directly on point on the question of which theory applied in Missouri. It concluded that, if presented with the question, the Missouri Supreme Court would adopt the property theory. Under the property theory, the district court found that the publication of the PCT application on May 27, 1993 destroyed the trade secret status of the confidential disclosures, and therefore Hallmark could not be liable for any activity after that date. The court did hold that Hallmark

would be liable for damages for any "head-start" it obtained by having access to the confidential information in the time period between the date of the confidential disclosure and the date of the PCT publication, and reserved that issue for trial. Group One subsequently stipulated that it would be unable to prove any such damages, and the counts were then dismissed.

The district court's understanding of Missouri's view on the law of trade secrets is a matter of law, which we review without deference to the district court. *See Salve Regina College v. Russell*, 499 U.S. 225, 231, 111 S.Ct. 1217, 113 L.Ed.2d 190 (1991). As the District Court noted, the Missouri courts have not opined on the issue in the context here. What we can glean from the law that does exist from the state of Missouri is consistent with the district court's interpretation. We find particularly relevant *Reddi-Wip, Inc. v. Lemay Valve Co.*, 354 S.W.2d 913 (Mo.Ct.App.1962), in which the Missouri court of appeals specifically rejected the doctrine of *Smith v. Dravo*, at least on the facts of that case and arguably as a general principle, stating:

> In general, the doctrine upon which [the *Smith v. Dravo*] line of cases rests was declared by Judge Learned Hand as one for which ". . . we can find no support in principle. . . ." *Conmar Products Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150, 156[, 80 USPQ 108, 113 (2d Cir.1949)]. We are of the opinion that the rule applied in *Smith v. Dravo, supra*, is not applicable to a case where, as here, defendants' knowledge of plaintiffs' trade secrets was acquired during a normal, albeit confidential[,] relationship, which has long since ceased, and the use of the alleged trade secrets occurred a substantial length of time after their voluntary disclosure by the issuance of patents to plaintiffs.

354 S.W.2d at 918; *see also Carboline Co. v. Jarboe*, 454 S.W.2d 540, 165 USPQ 521 (Mo.1970); *Nat'l Rejectors, Inc. v. Trieman*, 409 S.W.2d 1, 152 USPQ 120 (Mo.1966).

Group One correctly points out that these Missouri cases, as well as the other cases cited by the district court, all addressed trade secrets in the context of a former employee. In such a context, the right of the ex-employee to use the general knowledge he or she obtained while employed was a substantial countervailing factor to the employer's right of secrecy. According to Group One, no such countervailing considerations are implicated in the present case, and therefore the proper approach is to follow *Goldberg* and *Smith v. Dravo,* both of which were like the present case in that they did not involve an employee/employer relationship. While this argument is not without force, we find no such distinction made in existing Missouri law. In the absence of any suggestion in that law to make such a distinction, we are of the view that the District Court correctly determined the likely thrust of the state's law.

Hallmark also urges us to affirm the district court on the alternate ground that the confidential relationship between Group One and Hallmark is governed by the CDA, despite the fact that Hallmark never signed the CDA. Under Hallmark's interpretation of the CDA, its actions did not effect a misappropriation. We see no cause to overturn the district court's well reasoned rejection of that position. In any case, our holding regarding the effect of the 1995 publication of the PCT application renders the CDA issue moot.

We therefore affirm the judgment of the district court on the trade secret misappropriation and unjust enrichment counts.

CONCLUSION

The judgment of the district court is

AFFIRMED-IN-PART, REVERSED-IN-PART, VACATED-IN-PART, and REMANDED.

LOURIE, *Circuit Judge*, additional remarks.

I join the majority opinion, but write separately to address what the majority refers to as an alternative theory as to why the on-sale bar should not apply. I believe the offers here did not show that there was a definite offer for sale of the claimed inventions, as required by our precedent. What was offered was a license under whatever patents were obtained on the invention. It is clear that Mr. Goldstein intended to patent his invention, as the record shows that he sent drawings to his attorney no later than June 27, 1991. Although the majority asserts that I consider the term "license" to refer "uniquely" to rights under a patent, which I do not, it is clear from the facts that the license contemplated here did relate to patents.

The communications from Goldstein attempting to interest Hallmark in his invention unmistakably bore the marks of an offer to license the invention rather than an offer to sell it. There is a difference, and the difference is relevant to on-sale law. The communications did offer to "provide the machine," but those offers were accompanied by language indicating that it was to be provided ona "license/royalty basis." There is no indication that the machine Goldstein intended to patent was to be sold. No price was specified, no date of delivery. It is true that, in a letter from Goldstein to Hallmark, Goldstein stated that Group One "only offered to sell Hallmark the machine." However, it is clear from that document that the comment related to the distinction between the machine and ribbon curled by the machine. That reference to selling does not override the frequent references to providing the machine on a license/royalty basis.

We have held in *Mas-Hamilton* that providing a machine to a potential customer with an offer to convey "production rights" or the "right to market the invention" does not constitute an offer to sell the invention that violates the on-sale bar. *Mas-Hamilton Group v. LaGard, Inc.*, 156 F.3d 1206, 1217, 48 USPQ2d 1010, 1019 (Fed.Cir.1998). That is

because a license under a patent is not usually a sale of the patented product, and the statute bars a sale, not a license. A license is analogous to granting or waiving rights under *the patent*, which is distinct from selling *the machine* covered by the patent.

A patent license, if it is non-exclusive, is an agreement to forbear from suit. If the license is exclusive, it may be tantamount to an assignment of the patent. In neither case is the invention of the patent necessarily on sale when the license is executed. In fact, if a license were equivalent to a sale for purposes of the on-sale bar, many patents would be invalidated long before the invention itself is put on sale because the grant of licenses often long precedes commercialization by sale of the invention. The law does not start the on-sale bar clock running when a license to an invention is executed.

The on-sale bar is intended to limit the time for an inventor to commercialize an invention before filing a patent application. The statute refers to a patented invention itself being on sale, not to an agreement with another party concerning the commercialization of the invention at some future time, following which the invention would then be placed on sale. An important consequence of the distinction between the sale and the license of a patented machine is thus the time at which the on-sale clock starts running. With a license, the licensee of a machine would not normally be able to immediately begin commercialization of the invention, whereas if the machine had been sold, the sale itself is the commercialization that starts the on-sale clock running. How long Hallmark, the potential licensee in this case, would have taken before it could have put the invention into commercial use is not known. But it would not have been immediate, whereas the sale of the machine, had it occurred, would have been immediate.

There may be instances in which a license is tantamount to a sale, and in which a bar may arise from a license. When a product, such as a computer program, is transferred to a customer in a transaction that is tantamount to a sale, the transaction may under commercial law nevertheless still be a license. The transaction is structured as a license (a "shrink wrap" license) so that the seller can restrict what the "buyer" does with the program, in particular, to ensure that it is not duplicated and distributed to others who have not paid the seller for the product. The product is, however, just as immediately transferred to the "buyer" as if it were sold. Notwithstanding the provisions of such a license, it is not contemplated that the product will ever be returned to the seller.

This is not such a case. The license offered here, in contrast to an offer for sale of the patented machine, contemplated that Hallmark go into the business of using the patented machine and method to curl ribbon, which Hallmark would then sell. The on-sale bar was not triggered by the offered license. Thus, I would hold that no on-sale bar occurred for the additional reason that the proposal for a business arrangement between Goldstein and Hallmark was an offer to grant a license under the eventual patent, not an offer to sell the patented machine.

APPENDIX D

IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF MISSOURI
WESTERN DIVISION

[Filed Sep. 2, 1999]

No. 97-1224-CV-W-1

GROUP ONE LTD.,

Plaintiff,

v.

HALLMARK CARDS, INC.,

Defendant.

ORDER

Today, the Court has issued three Orders in this case. First, pursuant to the parties joint stipulation for reconsideration, the Court has entered final judgment granting Defendant's motion for summary judgment on Counts III and IV of Plaintiff's claim. Accordingly, the Court will not further modify its Order of July 29, 1999. Second, the Court has also amended its Order of July 30, 1999, granting Defendant's motion for summary judgment on Counts I and II of Plaintiff's claim. That Order was amended to state the facts which the Court relied upon in making its decision, and to provide possible aid the parties and the Federal Circuit in understanding how this Court would have resolved the claim construction issues in this case. The Court also notes that it has granted Defendant's motion for summary judgment on its counterclaim. Finally, the Court issues this Order to resolve and pending issues.

Accordingly, it is hereby ORDERED that this Order shall constitute final judgment all issues in this case. No previous

Order should be considered to have been final or appealable, and to the extent that it was, it is VACATED and SUPERCEDED by this final order. It is further

ORDERED that to the extent that any motion has not been previously addressed by this Court is now DENIED and DISMISSED as MOOT.

IT IS SO ORDERED.

/s/ Dean Whipple
DEAN WHIPPLE
United States District Judge

Date Sept. 2, 1999.

APPENDIX E

IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF MISSOURI
WESTERN DIVISION

[Filed Sep. 02 1999]

No. 97-1224-CV-W-1

GROUP ONE LTD.,

Plaintiff,

v.

HALLMARK CARDS, INC.,

Defendant.

ORDER

This Order supplements and supersedes the Court's Order of July 30, 1999. [Doc. 339]

Pending before the Court is Defendant Hallmark Cards, Inc's (Hallmark) motion for summary judgment on Counts I and II of Plaintiff's Complaint. [Docs. 180, 183, 184] Plaintiff Group One Ltd. (Group One) has filed suggestions in opposition and Hallmark has filed a reply brief. [Docs. 206, 227] Oral argument was heard on this motion on July 6, 1999. The Court has considered all of these motions and the entire record in rendering its decision. For the following reasons, Hallmark's motion is GRANTED.

I. FACTUAL BACKGROUND [1]

Group One is a corporation registered in the Isle of Man, United Kingdom, and has it administrative office in Jersey,

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[1] The facts section in this Order closely parallels the fact sections contained in the parties briefs. Accordingly, why the Court does not offer citations to the record for each fact, one can easily locate these facts in the record by looking to the parties briefs [Docs. 183, 184, 206, 227].

United Kingdom. The managing Director and sole beneficial shareholder of Group One is Fredric Goldstein, a United States citizen who resides in Sweden. Goldstein obtained the '492 Patent and '752 Patent at issue herein.

Hallmark is a Missouri corporation headquartered in Kansas City, Missouri. Among the products designed, manufactured, and/or sold by Hallmark are "Curl Cascade"—a gift adornment comprised of twelve strands of curled ribbon stapled to a small plastic square with adhesive on one side (a "bow chip"—and "Curl Fill," a gift bag stuffing comprised of individual sands of curled ribbon. Hallmark has produced these products using seven, machines the first of which was developed in 1994-95.

Group One alleges that Hallmark Machines Nos. 1-6 and pre-modified Machine No. 7 infringe claims 1, 2, 5, 6, 11, 17, and 19 of the '492 Patent and Claim 1 of the '752 Patent. Claims 2, 5, 6, 11, and 17 of the '492 Patent are "dependent" claims to Claim 1 of that patent. The '492 Patent concerns an automated device for curling ribbon. The '752 Patent concerns a method for making curled ribbon using the device described in the '492 Patent.

On November 12, 1992, Goldstein filed a patent application for an automated ribbon curling device in the European Patent Office under the Patent Cooperation treaty (the "PCT Application') and designated the United States as one of the countries in which he desired to pursue a patent pursuant to the PCT.[2] On May 13, 1994, Goldstein filed a patent application on the same device in the United States

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[2] The PCT Application itself claimed priority on the basis of a prior U.K. patent application (the "U.K. Application") which Goldstein filed on November 14, 1991. The PCT Application as originally filed was identical to the U.K. Application, except the PCT Application contained claims and the U.K. Application did not.

Patent and Trademark Office (PTO) (the "U.S. Application"). The Broadest claim (Claim 1) of the U.S. Application included four elements:

> 1. A ribbon curling device comprising in sequence delivery means (12) for delivering a supply of unstressed curlable ribbon, curling means (17) for the ribbon, drive means (31, 32, 33) for drawing the ribbon across said curling means (17), and stripping means (36) for separating the ribbon from said drive means.

The written description and the drawing in the U.S. Application were identical to those in the previous PCT Application, as amended during the PCT prosecution.

On July 3, 1995, the PTO rejected Claim 1 as unpatentable for several reasons, including that the invention was obvious (and hence unpatentable) under 35 U.S.C. § 103 in view of prior art patents. The patent Examiner explained that "[i]t would have been obvious to one of ordinary skill in the art at the time the invention was made to include the drive means of [the] *Lemmon* [patent] with the curling means since *Goldstein* teaches that drive means, such as rollers . . . are old and well known in the art."

In response to this rejection, Goldstein amended his claims, rewording Claim 1 to add limitations. In remarks submitted with the amendments to overcome the obviousness rejection, Goldstein's U.S. patent attorney, Howard Gitten, defined the problem disclosed in the U.S. Application—curled ribbon sticking to the drive wheels—and the solution disclosed for this problem—a stripping means—as follows:

> The curling of the ribbon upsteam of the drive means tends to cause the ribbon to adhere to the drive means and thus foul the mechanism rather than smoothly exiting the dispenser. To solve this problem, Applicant's invention provides stripping means, as provided in

claim 1, to ensure that the curled ribbon, which would otherwise "stick" to a drive wheel, for example, is removed or "stripped" from the drive means and can be safely conveyed to a packing or storage location without damage to either the curled ribbon or to the device itself.

In a December 29, 1995, conference with the U.S. patent Examiner, Gitten agreed on Goldstein's behalf to the terms of the Examiner's amendment which further limited Claim 1, by adding to the stripping means description the function that Goldstein ascribed to the stripping means: "[I]n order to prevent said ribbon from adversely affecting operation of said mechanical drive wheel means by preventing said ribbon from adhering to said mechanical drive wheel means." Gitten also agreed on Goldstein's behalf to change the phrase "drive means" to "mechanical drive wheel means," as requested by the Examiner. No explanation was provided by the Examiner regarding the addition of these two words "mechanical" and "wheels" to the phrase "drive means." The examiner never suggested any intent that this language would exclude any of the various tractive structures set forth in the '492 patent specifications.

Following Goldstein's agreement to the Examiner's amendment, the '492 Patent was issued on May 21, 1996. The final, issued version of Claim 1 of the '492 Patent reads as follows:

1. A ribbon curling device comprising:

delivery means (12) for delivering a supply of unstressed curlable ribbon;

curling means (17) located downstream of said delivery means (12) for curling the ribbon;

mechanical drive wheel means (31, 32, 33) located downstream of said curling means (17) for drawing the ribbon across said curling means (17); and

stripping means (36) for separating the ribbon from said mechanical drive wheel means in order to prevent said ribbon from adversely affecting operation of said mechanical drive wheel means by adhering to said mechanical drive wheel means.[3]

Claim 19 of the '492 Patent reads as follows:

19. A ribbon curling device comprising:

delivery means (12) for delivering a supply of unstressed curlable ribbon:

curling means (17) located downstream of said delivery means (12) for curling the ribbon;

drive means (31, 32, 33) located downstream of said curling means (17) for drawing the ribbon across said curling means (17);

stripping means (36) for separating the ribbon from said drive means; and

ribbon means (81) intermediate said curling means and drive means, said guide means (81) controlling the approach angle of ribbon to said drive means, said ribbon guide means (81) forming a convex guide surface.

On May 20, 1996, Goldstein filed with the PTO a Continuation Application seeking a patent for a method of curling ribbon utilizing a device similar to the device described in the '492 Patent. While the specifications of the '752 Patent and the '492 are similar, the claim recitations are

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[3] Although the printed version of the '492 Patent issued by the PTO inadvertently and erroneously omitted the phrase, "in order to prevent said ribbon from adversely affecting operation of said mechanical drive wheel means by preventing said ribbon from adhering to said mechanical drive wheel means" from Claim 1, that language regarding the patent's stripping means is undisputably part of the claim.

not identical. As originally filed, the new claims in the Continuation Application did not contain a separating step utilizing a stripping means.

After an initial rejection by the Examiner because the new claims were obvious in view of prior art, Goldstein amended the Continuation Application by including a separating step using the stripping means, arguing that the feature distinguished Goldstein's method from the prior art. Again, however, the Examiner, citing prior art, rejected the amended claim.

In connection with that rejection, the Examiner also specifically found that the only stripping means enable by the specification was an air blower. "[T]he specification fails to provide an alternate enabling disclosure for separating the ribbon *by* utilizing stripping means other th[a]n mechanical air blower means 36." (emphasis in original) [4] The phrase "mechanical air blower," however, does not appear in either patent, they refer only to "air blower." Howard Gitten, has no recollection as to why the Examiner used the word "mechanical" in the official action summary.

The Examiner required the addition of the same function-limiting language that had been included in the Examiner's's amendment to Claim 1 of the '492 Patent. The purpose of this, explained the Examiner, was "to particularly point out and distinctly claim the invention's particular relations between utilizing [a] separating step, via air blower 36, and utilizing the mechanical drive means in order to perform the drawing step and, thus, 'ensure that shredded ribbon does not cling to wheel 32 and thus snag or jam the machine . . . .' "

On September 25, 1997, Goldstein through Gitten, accepted the Examiner's amendment, adding the same

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[4] Document is mis-cited in Defendant's brief as (Ex. 9 at 6), it should be (Ex. 11 at 6).

function-limiting language that had been included in the Examiner's amendment to Claim 1 of the '492 Patent, and stated that he agreed to the change "to better define the invention to provide an enabled embodiment." In response to Goldstein's acquiescence in the Examiner's amendment, the PTO issued the '752 Patent, in the amended form, on January 27, 1998.

Claim 1 of the issued '752 Patent reads as follows:

> 1. A method for curling ribbon utilizing a device having a delivery means for delivering a ribbon supply, a curling means located downstream of said delivery means for curling the ribbon, a mechanical drawing means for mechanically drawing a ribbon across the curling means and a stripping means for separating the ribbon from said mechanical drawing means comprising the steps of:
>
> delivering a supply of unstressed curlable ribbon from said delivery means;
>
> mechanically drawing said ribbon, by utilizing said mechanical drawing means, across said curling means, said curling means being located downstream of said delivery means, and said mechanical drawing means being located downstream of said curling means;
>
> curling said ribbon with said curling means; and
>
> separating the curled ribbon utilizing said stripping means from said mechanical drawing means in order to prevent the curled ribbon from adversely affecting operation of said mechanical drawing means by preventing the ribbon from adhering to the mechanical drawing means.

Hallmark has used seven machines to produce the Curl Cascade and/or Curl Fill products, each of which consists of several stations for accomplishing different tasks. A series of

stations not at issue herein delivers twelve strands of uncurled ribbon to the "ribbon curling station." The ribbon curling station consists of a series of individual curling blades and nip rollers. The nip rollers consist of twelve separate, unpowered pressure rollers and one large powered roller against which the pressure rollers rest to create twelve separate contact points or nips. The parties dispute whether the powered roller exerts sufficient force to pull uncurled ribbon under the curling blades by itself.

After the curling station, the twelve individual curled ribbons are gathered on top of each other to form a ribbon stack. The ribbon stack then travels between two conveyor belts through the "stitch and cut station" where, with respect to the Curl Cascade product, the stack is attached to a bow chip. The belts in the stitch and cut station are located approximately eight feet from the curling blades in the curling station. Again the parties dispute whether the two conveyors are used as drive means to pull the ribbon through the curling machine or merely carry the ribbon to the next station.

The curled ribbon stack is moved by the conveyor belts to where it is cut, either through a slit in the belt section or after the belts in the Transvector tube. After the ribbon stack passes through (or is pulled by the conveyors), it is fluffed by a vacuum tube device powered by a Transvector.[5] The purpose which the Transvector serves on Hallmark's machines is hotly disputed in this case. Group One argues that the Transvector is a stripping device to prevent

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[5] The term "Transvector" is a trademark for several different devices manufactured by Vortec Corporation. The type of Transvector that Hallmark uses is a short tubular device having an annular chamber approximately at its midpoint, which directs compressed air toward the outlet. This creates a slight vacuum at the inlet end. The ribbon products mad on the Hallmark machines move through the Transvector from inlet to outlet.

Hallmark's machines from jamming while Hallmark argues that the device is used to transport ribbon products to, and propels them against, a splat screen to fluff the cut product. In addition to producing the Curl Cascade product, Hallmark Machine No. 7 also is used to make the Curl Fill product, to produce this product, the stitcher and bow chip feeder on Machine No. 7 are disengaged.

Goldstein testified that he did not know the exact time prior to June 24, 1991 that he had been thinking about the automation of a ribbon curling machine, that it was as far back as his first involvement with Group One in 1990, and that it was fair to say that it "could have been" as far back as 1989. Goldstein testified at his deposition that he put the automation of the curling process into practice in 1990, that he built an inventor's model that wen through different variations, that the means in the inventor's prototype model were similar to the means described in the patent, that the inventor's model did not initially have a shredding-means that was put on later, and that the inventor's model was capable of curling ribbon.

In 1991, Goldstein worked on developing, but never completed, a presentable commercial model that would be used to market the patent for royalty purposes. This commercial model was developed so that one could send photographs or make a video to promote the patent. The unfinished commercial model had the same means as the inventor's model and although the intent was to put on a blower as the stripping means Goldstein could not recall whether he actually got to that stage.

Goldstein prepared patent sketches for his British patent attorney, Adrian Chettle, prior to November of 1991, and although he could not recall specifically, he likely prepared some of these drawings prior to June 27, 1991. The drawings contained a depiction of a stripping means.

On June 24, 1991, Goldstein wrote to Hallmark, offering to license the ribbon curling machine. In the letter, Goldstein wrote that:

> We have developed a machine which can curl and shred ribbon so that Hallmark can produce the product you see inclosed [sic]—a bag of already curled and shredded ribbon.

Enclosed in the June 24, 1991 letter was a bag of curled and shredded ribbon. Goldstein stated that he "would think" or "would reckon" that the shredded ribbon was made by machine. Goldstein offered to "provide the machine and/or technology and work on a license/royalty basis." On August 23, Goldstein wrote to Hallmark again:

> Regarding the already curled and shredded ribbon, I await new of interest so that we could discuss a license arrangement for the machine which can produce such a product. We have been receiving huge interest in this product and have been offered contracts of exclusivity, which until now we have resisted. I mention this so that Hallmark would be aware of a potential obstruction, should we receive no interest from yourselves for a long period of time.

The machine referred to in this letter is the same machine discussed in his June 24, 1991 letter and would be based on the patent. On October 14, 1991, Goldstein wrote yet again to Hallmark about the ribbon curling machine, stating: "I am of course very pleased about the positive reaction towards the already curled/shredded ribbon product idea. I look forward to hearing from the members of the team and will be pleased to work with them on this product regarding the machine involved."

In the summer of 1991, Goldstein also contacted other major players in the ribbon market in the United States, Europe and Asia, some of whom were customers, and sought

their potential interest in his ribbon curling machine. On June 10, June 12, and August 15, 1991, Goldstein sent letters to three U.S. companies, C.M. Offray & Sons Inc., Berwick and Pioneer Balloon Company, respectively, offering to license his machine to those companies or provide it to them on a royalty basis.

II. MOTION TO STRIKE

Hallmark has submitted the Affidavit of Vernon Bartels as an exhibit to its motion for summary judgment. There are four exhibits attached to this affidavit which have also been submitted for the Court's consideration. Group One has moved to strike Exhibits 1, 2, 3, and part of 4 to the affidavit. Upon considering the parties arguments the Court denies this motion. [Docs. 205, 225] Although the Court believes that these exhibits are properly before it, the Court has not relied on these exhibits in any manner in issuing this Order.

III. SUMMARY JUDGMENT STANDARD

A movant is entitled to summary judgment if there is "no genuine issue as to any material fact and [ ] the moving party is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(c). The moving party bears the burden of proof. *Aetna Life Ins. Co. v. Great Nat'l Corp.*, 818 F.2d 19, 20 (8th Cir. 1987). When considering a motion for summary judgment, a court must scrutinize the evidence in the light most favorable to the nonmoving party and "give [the nonmoving party] the benefit of all reasonable inferences." *Mirax Chem. Prod. Corp. v. First Interstate Commercial Corp.*, 950 F.2d 566, 569 (8th Cir. 1991). Moreover, "[b]ecause discrimination cases often depend on inferences rather than on direct evidence, summary judgment should not be granted unless the evidence could not support any reasonable inference for the nonmovant." *Crawford v. Runyon*, 37 F.3d 1338, 1341 (8th Cir.1994).

Once the moving party discharges its initial burden, the nonmoving party "may not rest upon the mere allegations or denials of the adverse party's pleading, but . . . must set forth specific facts showing that there is a genuine issue for trial." Fed.R.Civ.P. 56(e). The moving party may not "simply show that there is some metaphysical doubt as to the material facts." *Matsushita Electric Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586, 106 S. Ct. 1348, 1355-56, 89 L. Ed. 2d 538 (1986).

IV. DISCUSSION

Hallmark argues that because Group One began to commercialize Goldstein's ribbon curling machine more than one year before Goldstein applied for a United States patent on the device, that the patents in this suit should be declared invalid under the "on sale" bar of 35 U.S.C. § 102(b).

A. Standard of Proof for Patent Invalidity

A patent is presumed valid and one challenging its validity bears the burden of proving invalidity by clear and convincing evidence. 35 U.S.C. § 282; *Mas-Hamilton Group v. LaGard, Inc.*, 156 F.3d 1206, 1216 (Fed. Cir.1998); *Baxter International, Inc. v. Cobe Labs., Inc.*, 88 F.3d 1054, 1057 (Fed. Cir.1996); *Buildex, Inc. v. Kason Indus., Inc.*, 849 F.2d 1461, 1463 (Fed. Cir.1988); *American Hoist & Derrick Co. v. Sowa & Sons*, 725 F.2d 1350, 1360 (Fed. Cir.), *cert denied*, 469 U.S. 821, 105 S. Ct. 95, 83 L. Ed.2d 41 (1984). The "clear and convincing" standard of proof of facts is an intermediate standard which lies somewhere between "beyond a reasonable doubt" and a "preponderance of the evidence." *Addington v. Texas*, 441 U.S. 418, 425, 99 S. Ct. 1804, 1809, 60 L. Ed.2d 323 (1979); *see also SSIH Equip. S.A. v. United States Int'l Trade Comm'n.*, 718 F.2d 365, 380 (Fed. Cir. 1983) (Nies, J., additional views).

Where, as here, the party moving for summary judgment is challenging the validity of a patent, it must present evidence sufficient to overcome the presumption of patent validity. *Articulate Systems, Inc. v. Apple Computer, Inc.*, __F.Supp.2d.__1999 WL 307928, *2 (D. Mass., May 11, 1999) (citation omitted). To be sufficient, such evidence must be "clear and convincing." *E.g., Mas-Hamilton*, 156 F.3d at 1216. If the moving party makes such a showing, the opposing party has the burden of coming forward with sufficient rebuttal evidence to raise a genuine issue of material fact, but "the presumption of validity remains intact and the ultimate burden of proving invalidity remains with the challenger throughout the litigation." *Mas-Hamilton*, 156 F.3d at 1216.

B. The On Sale Bar

Section 102(b) prohibits entitlement to a patent with respect to an invention which is offered for sale more than one year before a United States patent application is filed: "A person shall be entitled to a patent unless . . . (b) the invention was . . . on sale in this country, more than one year prior to the date of the application for patent in the United States." 35 U.S.C. § 102(b). A unanimous Supreme Court recently held that the on sale bar applies when two conditions are satisfied before the critical date: (1) "the product must be the subject of a commercial offer for sale," and (2) "the invention must be ready for patenting." *Pfaff v. Wells Elec., Inc.*, 525 U.S. 55, 119 S. Ct. 304, 311-12, 142 L. Ed.2d 261(1998); *see also Ferag AG v. Quipp Inc.*, 45 F.3d 1562, 1566 (Fed. Cir.), *cert. denied*, 516 U.S. 816, 116 S. Ct. 71, 133 L. Ed. 2d 31 (1995); *UMC Elecs. Co. v. United States*, 816 F.2d 647, 656 (Fed. Cir.1987), *cert. denied*, 484 U.S. 1025, 108 S. Ct. 748, 98 L. Ed. 2d 761 (1988).

1. Determining the "Critical" Date

The on sale bar date is measured from the effective filing date of the United States Application. *See* 35 U.S.C. § 102(b); 35 U.S.C. § 119. Goldstein submitted an international patent application to the European Patent Office under the Patent Cooperation Treaty (PCT) on November 12, 1992. United States patent law utilizes the PCT international filing date as the effective filing date in the United States if the international application designates the United States. 35 U.S.C. § 363. Since Goldstein designated the United States in his PCT Application, the effective date of his United States Application is the date of the PCT Application: November 12, 1992. *See Schneider (Europe) AG v. Scimed Life Sys.. Inc.*, 852 F. Supp. 813, 826 (D. Minn. 1994), *aff'd without opinion*, 60 F.3d 839 (Fed. Cir.1995). The parties in this case do not dispute that November 12, 1991 is the "on sale" bar date.

2. Was Goldstein's Machine Ready for Patenting?

Because Group One does not seriously dispute that Goldstein's ribbon curling machine was ready for patenting before November 12, 1991, the Court addresses the second prong of *Pfaff* first.[6] In *Pfaff*, the Supreme Court held that the "ready for patenting" condition for application of the on sale bar may be satisfied by either (1) "proof of reduction to practice before the critical date" [7] or (2) "proof that prior to

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[6] Group One's entire rebuttal to Hallmark's assertion that Goldstein's machine is ready for patenting is contained in a single footnote. Moreover, Group One does not offer any rebuttal evidence or cite to any legal authority which would support the position that Goldstein's machine was, in fact, not ready for patenting.

[7] Reduction to practice "occurs when the inventor constructs a product or performs a process that is within the scope of the patent claims and demonstrates the capacity of the inventive idea to achieve its intended purpose." J. Thomas McCarthy, *McCarthy's Desk Encyclopedia of Intellectual Property* 365 (2d ed. 1995) (quoting 3 Donald S. Chisum, *Chisum on Patents* § 10.06 (rev. ed.1994)).

the critical date the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention." 119 S. Ct. at 312.

Here, it is undisputable that Goldstein's ribbon curling machine was "ready for patenting" because it had been reduced to practice before November 12, 1991. Goldstein admitted in his deposition (1) that he "put [the ribbon curling and shredding machine mentioned in the June 24, 1991 letter to Hallmark] in to practice in 1990," and (2) that the bag of already curled and shredded ribbon enclosed with the June 24, 1991 letter was actually made by a model of the machine. As of June 1991, that machine model had all of the means—curling means, shredding means, mechanical drive wheel means, delivery means, and stripping means—described five months later in the U.K. Application filed November 14, 1991. Goldstein also testified at his deposition that he had constructed a prototype machine in 1990 and had begun work on a commercial prototype model in 1991.

Additionally, Goldstein prepared drawings of his invention in advance of November 12, 1991. He sent these drawings to his U.K. patent attorney, Adrian Chettle, on June 27, 1991, September 11, 1991, October 16, 1991, and October 23, 1991 for purposes of preparing the U.K. Application. Although these papers have not been presented to the Court, it strains reasons and credibility to believe that Goldstein could file his U.K. Application on November 14, 1991, but yet claim that two days prior to this he had not prepared drawings or other descriptions of the invention which were sufficiently specific to enable a person skilled in the art to practice the invention. In fact, Group One does not make this claim. Group One has failed to dispute, either in written motion or at the summary judgment hearing, that prior to November 12, 1991 Goldstein prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art

to practice the invention. Accordingly, the second prong of *Pfaff* is satisfied in this case.

3. Was Goldstein's Machine Offered for Sale?

This case turns on the issue of whether Goldstein offered his machine "for sale" prior to November 12, 1991. The parties dispute this point and the dispute centers on the issue of whether an offer to provide the machine on a license/royalty basis constitutes an offer to sell the machine.

An invention may be on sale where there is a definite sale or an offer to sell. *Buildex,* 849 F.2d at 1462. It is not necessary that a sale be consummated for the patent to be invalid; no more than a firm offer to sell may be sufficient. *Id.* A single offer to sell is enough to invalidate the patent whether or not the offer is accepted. *A.B. Chance Co. v. RTE Corp.,* 854 F.2d 1307, 1311 (Fed. Cir. 1988). A patent may be invalidated because the alleged invention was previously "on sale" even though there are no commercially marketable products on hand. *Barmag Barmer Maschinenfabrik AG v. Murata Mach. Ltd.,* 731 F.2d 831, 838 (Fed. Cir. 1984). The test is whether the person offering the alleged invention thought he had a product which could be and was offered to customers. *Paragon Podiatry Laboratory, Inc. v. KLM Laboratories, Inc.,* 984 F.2d 1182, 1187, n.5. (Fed. Cir.1993). Such an offer for sale may invalidate the patent even if no details are disclosed. *RCA Corp. v. Data General Corp.,* 887 F.2d 1056, 1060 (Fed. Cir.1989). The sale or offer for sale, must be for commercial gain and not merely for experimental use. The ultimate determination of whether an invention was on sale within the meaning of § 102(b) is a question of law. *Weatherchem Corp. v. J.L. Clark, Inc.,* 163 F.3d 1326, 1332 (Fed. Cir.1998).

The Federal Circuit has stressed that commercialization is the central focus for determining whether the patented invention has been placed "on-sale." *In re Mahurkar,* 71 F.3d 1573, 1577 (Fed. Cir.1995). Naturally one can transmit an

offer through advertisements covering the invention. *See RCA*, 887 F.2d at 1056. Moreover, sending a prototype to a customer to solicit an order constitutes an offer under *Sterns v. Beckman Instruments*, 737 F.2d 1565 (Fed. Cir.1984). Merely quoting a price of something can constitute an offer even if the quotation by itself did not provide evidence that the patentee offered the patented invention before the critical date. *Sonoscan v. Sonotek*, 936 F.2d 1261, 1263 (Fed. Cir.1991) (holding that whether "the offered product is in fact the claimed invention may be established by any relevant evidence, such as memoranda, drawings, correspondence and testimony of witnesses." (citation omitted)). Bidding on a government contract is also a sufficient offer under § 102(b). *UMC Elec.*, 816 F.2d at 647.

In this case, the parties do not dispute that Group One's machine was not actually sold. Where there is no sale, a definite offer to sell is an essential requirement of the on-sale bar. *RCA*, 887 F.2d at 1062. In *RCA*, the Federal Circuit went on to hold:

> The requirement of a definite offer excludes merely indefinite or nebulous discussion about a possible sale. While this requirement may be met by a patentee's commercial activity which does not rise to the level of a formal "offer" under contract law principles, (*see, e.g.*, analysis of pre-bid activities related to a government contract in *General Elec. Co. v. United States*, 206 USPQ 260, 276-77 (Ct.Cl.Tr.Div.1979)), a definite offer in the contract sense clearly meets this requirement. *See, e.g., Buildex, Inc. v. Kason Indus., Inc.*, 849 F.2d 1461, 1463-64, 7 USPQ2d 1325, 1327-28 (Fed. Cir.1988).

Id. at 1062. The key question is whether, under the totality of the circumstances, the inventor placed his invention on sale, objectively manifested by a sale or offer for sale of a product that embodies the invention claimed in the patent. *See Glaverbel Societe Anonyme v. Northlake Marketing &*

Supply, Inc., 45 F.3d 1550, 1558 (Fed. Cir.1995). The Federal Circuit has emphasized that this is an objective test, and that at its heart lies the inventor's attempt to commercialize the invention. *Ferag AG*, 45 F.3d at 1568.

Accordingly, The Court must consider whether Goldstein's repeated efforts to provide his machine to Hallmark, and others, on a license/royalty basis objectively manifested a definite offer to sell his machine. Hallmark relies on letters sent in 1991 that refer to a machine for curling ribbon and indicate Goldstein would be interested in providing the machine on a license/royalty basis, including the following:

> We have developed a machine which can curl and shred ribbon so that Hallmark can produce the product you see inclosed—a bag of already curled and shredded ribbon . . . . We could provide the machine and/or the technology and work on a *license/royalty basis.* (emphasis added) [Doc. 206, Ex. 39]
>
> Regarding the already curled and shredded ribbon, I await news of interest *so that we can discuss a license arrangement for the machine which can produce such a product.* (emphasis added) [Doc. 206, Ex. 40]
>
> I am of course very pleased about the positive reaction towards the already curled/shredded ribbon product idea. I look forward to hearing from the member of the team and will be pleased to work with them on this product regarding the machine involved. [Doc. 206, Ex. 41]
>
> We also have developed a machine which automatically curls and shreds ribbon for packaging "already curled ribbon," a sample of which will soon arrive by post. . . We could provide the machine and work on a license/royalty basis. (emphasis added) [Doc. 206, Ex. 24]

> Finally, enclosed is a sample bag of a brand new product. We have invented a machine which can curl and shred ribbon . . . We *could discuss a license royalty arrangement if we provide the machine,* so that you could produce this yourselves. (emphasis added) [Doc. 206, Ex. 25]

Group One argues that none of these communications involves "a definite sale or offer to sell" within the meaning of 35 U.S.C. § 102(b).

a. Applying a Contractual Framework to the On-Sale Bar

The Federal Circuit has clearly established that a definite offer in the contract sense will clearly raise the on-sale bar. *Buildex Incorp.*, 849 F.2d at 1463; *RCA* 887 F.2d at 1062. Accordingly, the Court briefly considers whether Group One's activity would rise to the level of an offer under Missouri contract law.

The question of what constitutes an "offer" is not new to traditional theories of contract law. Missouri has traditionally followed the objective theory of contracts; whether a particular proposal is an offer generally depends upon whether the recipient of the proposal could reasonably believe that the one making the proposal intended it to be an offer. To constitute an offer sufficient to result in a contract, the offer must be definite in its terms that the promises and performances required by each parry are reasonably certain.[8] In determining whether a proposal manifests the requisite intent for a contractual offer, courts look first to the specific

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[8] *Tinucci v. R.V. Evans Co.*, 989 S.W.2d 181, 184 (Mo. Ct. App. 1998); *In re Estate of Munzert*, 887 S.W.2d 764, 768 (Mo. Ct. App. 1994); *Osage Homestead, Inc. v. Sutphin*, 657 S.W.2d 346, 352 (Mo. Ct. App. 1983) (citing *Brown v. Childers*, 254 S.W.2d 275, 280 (Mo. Ct. App. 1953)).

language of the proposal itself.[9] In this regard, language suggesting a legal offer such as "offer" or "I promise," and words suggesting preliminary negotiations such as "I quote" " or "are you interested" are evidence of intent but are not themselves controlling. In this case, Goldstein spoke in terms of "could provide" and "we could discuss."

In addition, the definiteness and completeness of the proposal may show that a legal offer was intended. As the Uniform Commercial Code notes, "the more terms the parties leave open, the less likely it is that they have intended to conclude a binding agreement . . ." U.C.C. § 2-204 comment. As to which terms are most important, a proposal will generally not be considered an offer unless it makes clear the subject matter of the proposed bargain; the price and the quantity of the proposed item involved; and the parties to the agreement. However, as intent controls the inquiry, surrounding circumstances such as prior communications and industry customs may work to prove a legal offer where one or more of these terms is absent. From these general principles has emerged the presumption that advertisements, industry circulars, and mere price quotes are not contractually binding offers but rather preliminary invitations to negotiate. *Howard Const. Co. v. Jeff-Cole Quarries, Inc.*, 669 S.W.2d 221, 228 (Mo. Ct. App. 1983) ("Whether the proposal was an offer and not merely a quotation of prices, depends upon the intentions of the offerer as manifested by the facts and circumstances of each particular case.").

The Court cannot say, as a matter of law, that Goldstein's letters rise to the level of an offer under Missouri contract law. The indefinite nature of these communications and lack of specific terms, *e.g.*, price is not mentioned, suggests that

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[9] Discussion on contracts taken from Edwin D. Garlepp, *An Analysis of the Patentee's New Exclusive Right to "Offer to Sell"*, 81 J. Pat. & Trademark Off. Soc'y 315, 319-20 (1999).

communications were preliminary proposals or invitations to negotiate a sale of the product. Moreover, no evidence has been offered which would suggest that surrounding circumstances and industry standards would prove that a legal offer was made. However, the fact that Group One's communications do not rise to the level of a contractual offer to sell does not end the Court's inquiry.

b. The On-Sale Bar beyond contract law

Although Group One's communications may not rise to the level of a legal offer under contract law, the Federal Circuit has shown a willingness to interpret the "on-sale" bar beyond contractual limits.[10] Specifically, the court stated in *RCA*, that the definite offer requirement "may be met by a patentee's commercial activity which does not rise to the level of a formal "offer" under contract law principles . . ." *RCA*, 887 F.2d 1062. "While arguably dicta, this language is consistent with the patent policies discussed by the court of preventing removal of seemingly public domain inventions from the public, and preventing the patentee from extending the patent monopoly beyond the statutory period." Garlepp, *An Analysis of the Patentee's New Exclusive Right to "Offer to Sell"*, at 321; *but see* Stephen L. Purcell, *Cases And Recent Developments*, 8 Fed. Cir. B.J. 57, 74 (1999) ("Still open for debate is whether the 'subject of a commercial offer for sale'

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[10] *See* Edwin D. Garlepp, *An Analysis of the Patentee's New Exclusive Right to "Offer to Sell"* 81 J. Pat. & Trademark Off. Soc'y 315, 321 (1999) ("The Federal Circuit has also shown a willingness, however, to interpret "offer to sell" beyond contractual limits in order to effectuate the "on sale" bar policies of: (1) discouraging removal of inventions from the public domain which the public justifiably comes to believe are freely available; (2) favoring prompt and widespread disclosure of inventions; (3) giving inventors a reasonable amount of time following sales activity to determine the value of the patent; and (4) prohibiting extension of the statutory period for exploiting the invention.")

prong of *Pfaff* will be interpreted as requiring an offer of specific contractual terms, or whether it will be applied more broadly."

The Federal Circuit's broad construction of "offer to sell" as encompassing activities beyond contractual offers is also in line with other cases that have found advertisements and price quotes to be offers to sell in the patent context. In a case predating *RCA*, the Federal Circuit ruled that two advertisements that described the patented invention and appeared in a nationally distributed trade magazine prior to the critical date were sufficient to offer for sale, and thus invalidate, the later patented invention. *Reactive Metals and Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578, 1580 (Fed. Cir. 1985); *In re Brigance*, 792 F.2d 1103, 1107 (Fed. Cir.1986) ("Curriculum Associates' distribution of a brochure . . . is sufficient grounds for finding that an offer was made . . .); *Timely Prods. Corp. v. Aaron*, 523 F.2d 288, 299 (2d. Cir.1975).[11]

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[11] Additionally, several lower courts have seized on the *RCA* language to find mere price quotes to be offers for sale and to explicitly hold that an "offer" in the patent context reaches beyond contractual offers. *See TRW Financial Services Inc. v. Unisys Corp.*, 835 F. Supp 994, 1003 (E.D. Mich. 1993) ("[a] patentee's commercial activity need not rise to the level of a formal 'offer' under contract law principles to trigger the 'on sale bar' "); *Keystone Retaining Wall Systems Inc. v. Westrock Inc.*, 22 U.S.P.Q.2d 1001, 1009 (D. Or. 1991) ("a definite offer to sell is required, but this requirement can be satisfied by a patentee's commercial activity which does not rise to the level of a formal offer under contract principles"), *aff'd*, 997 F.2d 1444 (Fed. Cir. 1993). For example, in *State Industries, Inc. v. Mor-Flo Industries, Inc.*, the District Court for the Eastern District of Tennessee dealing with a price quote which explicitly disclaimed being an offer stated, "although in the technical contract sense of the word, the price sheets may not have constituted an 'offer,' in the realistic patent law sense of the term, publication and distribution of these price sheets was certainly sufficient to constitute an offer for sale. . ." 639 F. Supp 937, 941 (E.D. Tenn.1986), *aff'd* 818 F.2d 875 (Fed. Cir.1987), *cert. denied* 484 U.S. 845,108 S. Ct. 140, 98 L. Ed. 2d 97 (1987).

Group One's letters to Hallmark, and to others in the industry, clearly advertise Goldstein's ribbon curling machine. *See RCA*, 887 F.2d at 1056 (finding that advertisements are a form of offer which a corporation should be able to control without much burden. By contrast, other forms of commercial activity may be difficult or impossible for a large corporation with an active sales force to effectively control.) At a minimum Group One's communications manifest an intent to begin negotiations and solicit preliminary proposals for the sale of its ribbon curling machine. The Court finds that in this case, these communications constitute sufficient commercial activity to raise the on-sale bar.

c. Is there a conceptual difference between "Sale" and "License"

Group One's argument rests upon determining whether there is a difference between "a sale or offer to sell" and a "license agreement or a license/royalty agreement." Group One argues that two cases support its argument that an offer to license an invention on a royalty basis does not constitute an offer to sell under 35 U.S.C. § 102(b). These two cases are *Mas-Hamilton Group v. LaGard. Inc.*, 156 F.3d 1206, 1216-17 (Fed. Cir. 1998) and *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1267 (Fed. Cir.1986), cert. *denied* 479 U.S. 1030, 107 S. Ct. 875, 93 L. Ed. 2d 829 (1987). Although both of these decisions were issued without the benefit of the Supreme Court's guidance in *Pfaff*, it is still helpful to consider Group One's argument which relies on them.[12]

Pfaff, offers little guidance on determining when a product has been "the subject of a commercial offer for sale." The

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[12] *Pfaff*, focused on the issue of whether an invention can be "on sale" before it is reduced to practice. Therefore, it offers little guidance on determining when a product has been "the subject of a commercial offer for sale."

Court focused on the issue of whether an invention can be "on sale" before it is reduced to practice. Moreover, the inventor in *Pfaff*, had accepted a purchase order prior to the critical bar date, so little discussion was given to the first prong of the test. Although the Court in *Pfaff* did not elaborate on the meaning of "commercial offer for sale," the Court did emphasize the importance of establishing a bright-line rule for the on sale bar. *Pfaff*, 119 S. Ct. at 311, n.11; *Brasseler, U.S.A. I.L.P., v. Stryker Sales Corp.*,__F.3d__, 1999 WL 463579 *2 (Fed. Cir. July 9, 1999).

In *Moleculon*, the defendant argued that the plaintiff's [Moleculon's] patent was invalid because the inventor had orally agreed, prior to the critical date, to assign "all his rights in the puzzle invention" to Moleculon. The inventor actually assigned his right to apply for the invention to Moleculon. The Federal Circuit held:

> Although the formal written assignment occurred after the critical date, the district court held that even if there were an earlier oral agreement, an assignment or sale of the rights in the invention and potential patent rights is not a sale of "the invention" within the meaning of section 102(b). We agree. The few cases we have found on this issue have uniformly held that such a sale of patent rights does not come within the section 102(b) bar. *United States Electric Light Co. v. Consolidated Electric Light Co.* 33 F. 869, 870-71 (S.D.N.Y.1888); *Scott Paper Co. v. Moore Business Forms. Inc.*, 594 F.Supp. 1051, 1075 (D. Del. 1984); *see also Federal Sign & Signal Corp. v. Bangor Punta Operations, Inc.* 357 F.Supp.1222, 1237 (S.D.N.Y.1973). Such a result comports with the policies underlying the on sale bar, *see Western Marine Electronics, Inc. v. Furuno Electric Co.*, 764 F.2d 840, 845 (Fed. Cir.1985), and with the business realities ordinarily surrounding a corporation's prosecution of patent applications for inventors, *see Sun*

> *Studs, Inc. v. Applied Theory Associates, Inc.*, 772 F.2d 1557, 1568 (Fed. Cir.1985).

Moleculon, 793 F.2d at 1267. Accordingly, the Federal Circuit has held that the sale of or assignment of patent rights more than a year before patent application does not trigger the on sale bar.

In *Mas-Hamilton*, the Federal Circuit specifically noted that the parties disputed whether the defendant was merely a potential licensee of legal rights, or, rather, a potential customer of devices. *Mas-Hamilton*, 156 F.3d at 1216. The district court explicitly found and the Federal Circuit affirmed that the defendant was only a potential licensee. *Id.*

> The district court found, based on the testimony given, that [the inventor] presented a prototype to Mosler and offered to furnish additional prototypes that were essentially the same device described in the '656 patent. However, the district court further found that the devices were for testing or show, only, and did not represent commercial sales of the lock even though money changed hands. Moreover, the district court also found that La Gard's offer to Mosler was only an offer of either (1) production rights in the invention, or of (2) the exclusive right to market the invention to the government; neither of which involved a sale or an offer to sell the devices themselves. *Mas-Hamilton*, 21 F. Supp.2d at 714-15. The district court relied on the trial testimony and the totality of the circumstances to determine that "[a]t no time did La Gard offer to sell the invention to Mosler." *Id.*

Id. Based on this language, Group One argues that the on-sale bar should not apply because its commercial activity was merely an offer to license and not an offer to sell.

The first issue raised by Group One's argument is whether there really is a difference between an "offer to sell" and an

"offer to license." In his treatise on Patent Law Fundamentals, Peter Rosenberg states:

> A mere license is not deemed to constitute any interest in the patent. A license is but a promise by one having an interest in a patent to forbear from suing one who would commit what would be, but for the license, an infringement of that interest. A license merely grants a part permission to do something which would otherwise be unlawful: it grants immunity from suit rather than a propriety interest in the patent.

3 Peter D. Rosenberg, Patent Law Fundamentals § 16.01[1][b] (2d ed. 1999). Pursuant to this definition, a license does not constitute a sale of patent rights. Further evidence of the synonymity of sale and license is that courts will interpret the sale of a patented item to carry an "implied license not only to use but also repair" the item. *Id.*

In this case, Group One, through Goldstein, specifically offered to license its product: a ribbon curling machine. None of the letters made any mention of patent rights or even informed the parties that Group One intended to patent its machine. Group One does not offer any evidence supporting the argument that its letters should be interpreted as offers to license or sell its patent rights, rather Group One simply argues that because it offered to provide its machine on a license/royalty basis the on-sale bar should not be triggered.

Group One has not cited to any case which stands for the proposition that an "offer to license" should always be interpreted as an offer to sell patent rights. Moreover, the

Court does not believe that *Mas-Hamilton*, *Moleculon*, or *Mahurkar* stand for this principle. Rather these cases support [13] the principle that there is a difference between

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[13] The Court is not holding that *Mas-Hamilton* is no longer good law in light of *Pfaff*. Although, there may be support for this position. *See* Isabelle R. McAndrews, *The On-Sale Bar After Pfaff v. Well Electronics:*

selling a patented product and selling your patent rights. The Court agrees with Group One that these cases support the argument that a sale of patent rights a year prior to patent application does not trigger the on-sale bar. Group One, however, argues that merely using the word "license," regardless of what you are offering to license, prevents the application of the on-sale bar and the Court rejects that argument.

Accordingly, the Court finds that pursuant to the standards established by the Federal Circuit Group One's commercial activity is sufficient to raise the on-sale bar in this case. Group One advertised its product through direct mail solicitation and sent samples of its product to companies in a clear attempt to solicit proposals and initiate negotiations. The Court finds as a matter of law, that this was done in effort to sell Goldstein's invention—either his machine or the technology to build his machine—and not in effort to sell rights to his patent. Moreover, the Court rejects Group One's argument that *Mas-Hamilton* and *Moleculon* protect this type of "sales activity" merely because a "license" was offered to the potential customers.

V. Hallmark's Counterclaim

Hallmark has also seeks summery judgment on its counterclaim. In its counterclaim Hallmark seeks declaratory judgment that Group One's '492 Patent is invalid and

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Toward a Bright-Line Rule, 81 J. Pat & Trademark Off. Soc'y 155, 167-68 (1999) ("However, the Supreme Court's holding in *Pfaff* may have completely undermined the principle that transferring rights to an invention is not a sale or offer for sale. Now that the "invention" under § 102(b) is defined by the Supreme Court as the inventive concept, and not necessarily a product embodying that concept, the holding of *Moleculon* no longer appears viable."). Because the Court has found that Group One did not offer its patent rights for sale, it merely holds that *Mas-Hamilton* and *Moleculon* are not applicable to this case.

unenforceable. For the same reasons as discussed above, Hallmark's counterclaim is GRANTED.

VI. Claim Construction

The Court realizes that the following section is somewhat superfluous and unnecessary in light of its holding regarding the On-Sale Bar. The Court, however, did hold a *Markman* hearing and considered extensive briefing on the issue of claim construction in this case. Accordingly, with an eye towards judicial efficiency and in the interest of saving the parties and the Court's time in the future, the Court notes that it would make the following holdings regarding the claim construction issues in this case.

Although this Court was presented with extrinsic evidence regarding claim construction at the *Markman* hearing, the Court concludes that it is unnecessary to consider extrinsic evidence in this case. Therefore, the Court has not considered any extrinsic evidence which may have been presented in reaching the following conclusions. *See Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1582 (Fed. Cir.1996) ("It is well-settled that, in interpreting an asserted claim, the court should look first to the intrinsic evidence of record . . .") (citation omitted). Accordingly, the Court looks to the language of the claims, the specification, and the prosecution history of the patent. *See General Am. Transp. Corp. v Cryo-Trans. Inc.*, 93 F.3d 766, 769 (Fed. Cir.1996), *cert. denied*, 520 U.S. 1155, 117 S. Ct. 1334, 137 L. Ed.2d 493 (1997). The Federal Circuit has instructed that "[t]he claim terms are to be given their ordinary meaning unless it is apparent that the inventor intended to use them differently." *National Recovery Techs., Inc. v. Magnetic Separation Sys. Inc.*, 166 F.3d 1190, 1195 (Fed. Cir.1999) (citations omitted). the prior art cited in the prosecution history is part of the intrinsic evidence and also can be considered in determining the scope of the claims. *See Autogiro Co. of America v. United States*, 384 F.2d 391, 399 (Ct. Cl. 1967) ("In its broader use as a

source material, the prior art cited in the file wrapper gives clues as to what the claims do not cover."). Such intrinsic evidence is the most significant source in ascertaining the meaning of claims. *See General Am. Transp. Corp.*, 93 F.3d at 769.

Where, as here, the elements of the patent claims are expressed in "means-plus-function" language, the claims are not to be construed to cover every possible physical structure that could perform the described function. *Chiuminatta Concrete Concepts. Inc. v. Cardinal Indus., Inc.*, 145 F.3d 1303, 13-7-08 (Fed. Cir.1998). Under § 112, ¶ 6, the scope of a means element is limited by the "structure, material, or acts" which are sufficiently described in the patent's specification. 35 U.S.C. § 112. Therefore, the patent will cover only physical structures that are sufficiently defined in the specification and those structures that are substantially defined in the specification and those structures that are substantially equivalent. *Chuminatta*, 145 F.3d at 1309. In addition, the accused structure must perform the identical function stated in the claims. *Id.* at 1310.

A. "Stripping Means" Element [14]

The Court finds that the "stripping means" element in Claim 1 and dependent Claims 2, 5, 6, 11, and 17 of the '492 Patent should be construed as being limited to (a) an air blower that blows, or directs, air toward the curled ribbon (b) for the purpose of separating the ribbon from the mechanical drive wheel means to prevent the ribbon, which would otherwise adhere to the mechanical drive wheel means, from

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[14] The Court notes that it would apply the same claim construction to Group One's '752 Patent as it does to the '492 Patent. In other words, the Court does not believe that there is any material difference in the manner in which the claims in these related patents should be interpreted. Accordingly, the Court simply focuses on the claims contained in the '492 Patent and only refers to the '752 Patent occasionally in the interest of clarity.

adversely affecting the operation of the mechanical drive wheel means. The Court reaches this conclusion for the following reasons.

Claim 1 of the '492 Patent describes a "stripping means 936) for separating the ribbon from said mechanical drive wheel means by preventing said ribbon from adhering to said mechanical drive wheel means. The structure "(36)" in Claim 1 refers to the air blower depicted in Figure 1 of the patent. As depicted, the blower functions to move air transversely toward the curled ribbon that is exiting the three wheel drive train 31, 32, 33 and to push the ribbon to the right in Figure 1 away from wheel 32.

The court concludes that the stripping means element should be limited to an air blower which blows, moves, or directs air because no other structure is "enable" by the patent as reflected in the prosecution history. The enablement requirement limits the patentee to obtaining claims covering only as much as is sufficiently disclosed in the specification to enable one of ordinary skill in the art to practice the invention:

> The enablement requirement ensures that the public knowledge is enriched by the patent specification to a degree at least commensurate with the scope of the claims. The scope of the claims must be less than or equal to the scope of the enablement.

National Recovery, 166 F.3d at 1195-96; *see also* 35 U.S.C. § 112 ¶ 1. During the prosecution of both the '492 and '752 Patent applications, the Examiner insisted that the stripping means element be amended to include the limiting phrase "in order to prevent said ribbon from adversely affecting operation of said mechanical drive wheel means by preventing said ribbon from adhering to said mechanical drive wheel means. The Examiner required this limiting language to "particularly point out and distinctly claim the invention's

particular relationship between utilizing [a] separating step, via air blower 36, and utilizing the mechanical drive means in order to perform the drawing step and, thus, 'ensure that the shredded ribbon does not cling to wheel 32 and thus snag or jam the machine . . .' [Doc. 183, Ex. 11 at 6-7]

In response to an effort by Goldstein to broaden his claims, the Examiner concluded that the specification "fails to provide an alternate enabling disclosure for separating the ribbon by utilizing stripping means other than mechanical air blower means (36) . . ." [*Id.*] Upon finding that the air blower was the only enabled disclosure for separating the ribbon, the Examiner concluded that no other stripping means was adequately taught, and that Goldstein, consequently, was not entitled to claim these "non-enabled" structures. Goldstein agreed to the Examiner's changes to the language of the stripping means element "to provide an enabled embodiment." This agreement made to achieve patentability precludes a broader interpretation of the stripping means than the air blower specified by the PTO. *See e.g., Alpex Computer Corp. v. Nintendo Co.*, 102 F.3d 1214, 1221 (Fed. Cir.1996) ("Just as prosecution history estoppel may act to estop an equivalence argument under the doctrine of equivalents, positions taken before the PTO may bar an inconsistent position on claim construction under § 112, ¶ 6 [means plus function]."), *cert. denied*, 521 U.S. 1104, 117 S. Ct. 2480, 138 L. Ed. 2d 989 (1997).

In addition to being limited to the physical structure of an air blower, the Court finds that the claims should be construed to require that blower perform the exact function stated in the patent—*i.e.*, "separating the ribbon from the drive wheel means to prevent ribbon from jamming the machine." As noted above, Figure 1 of '492 Patent shows in schematic form an air blower moving air transversely onto the ribbon to counteract the stated tendency of the curled ribbon to follow around wheel 32 and adversely affect the

machine. Consequently, the stripping means element of Claim 1 and the dependent Claims 2, 5, 6, 11, and 17 should be construed as requiring the air blower to function by blowing or moving air such that the ribbon is moved in a direction which will prevent the curled ribbon from adhering to a drive wheel and wrapping back around the drive wheel means which pull the ribbon across the curling means.

The Court must also construe the stripping means element of Claim 19 of the '492 Patent. It is an independent claim, which means that it does not incorporate any other claim into it by reference. In relevant part, Claim 19 provides:

> A ribbon curling device . . . stripping means 36 for separating the ribbon from said drive means; . . .

The Court believes that the "stripping means" element in Claim 19 should be construed in the same way as the "stripping means" in Claim 1. Even though the "stripping means" in Claim 19 does not contain all of the functional language that the Examiner required of the stripping means term in Claim 1, that limitation should nonetheless be applied to Claim 19 under the principles enunciated in *Builders Concrete, Inc. v. Bremerton Concrete Prods. Co.*, 757 F.2d 255, 260 (Fed. Cir.1985).

In *Builders Concrete*, the Federal Circuit held that an independent claim, such as Claim 19 herein, that was not amended during prosecution, but which contained language identical to another claim that was narrowed in response to an Examiner's rejection, should be construed in the same, limiting manner as the amended claim. *Id.* During prosecution of the patent in *Builders Concrete*, the Examiner narrowed the scope of a second independent claim that was not the subject of the lawsuit. Even though the claim in the suit was not narrowed by the Examiner, and the Examiner did not criticize the scope of the claim or any of its terms, the Federal Circuit held that the plaintiff was not permitted as a

matter of law to recapture a broader interpretation of the claim in suit that was relinquished to attain patentability of the other claim. The Court stated:

> [T]he prosecution history of all claims is not insulated from review in connection with determining the fair scope of [the claim in suit]. To hold otherwise would be to exalt form over substance and distort the logic of this jurisprudence, which serves as an effective and useful guide to the understanding of patent claims.

Id.

Claims 1 and 19 each originally referred to "stripping means" without any limiting functional language. The Examiner added the limiting functional language to Claim 1, but did not do so to Claim 19, even though the two claims originally contained the identical "stripping means" language. Consequently, the additional functional limitation language, "to prevent said ribbon from adversely affecting operation of said mechanical drive wheel means by preventing said ribbon from adhering to said mechanical drive wheel means," should be read into Claim 19, and the two "stripping means" terms in Claim 1 and 19 should be construed in the same way. *See Builders Concrete*, 757 F.2d at 260.[15]

B. Mechanical Drive Wheel Means

The Court finds that the "mechanical drive wheel means" element of Claim 1 and "drive means" element of Claim 19 should be defined to as any mechanical drive means which incorporates wheels to exert a tractive effort on the ribbon to perform the function of pulling across the curling means. The Court reaches this conclusion for the following reasons.

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[15] If it were to have reached this issued, and applied the facts of this case to this claim construction, the Court would have concluded that there are material issues of fact in dispute as to whether Hallmark's machines No. 1-7, and modified machine No. 7, infringe Group One's '492 and '752 Patents.

The '492 Patent describes the function of the mechanical drive wheel means as "imposing a tractive effort on the ribbon." The specification then identifies a number of structures that perform this function. In the exemplary embodiment of mechanical drive wheel means shown in Figure 1 of the '492 patent, the structure that imposes tractive effort on the ribbon is a train of three wheels, 31, 32 and 33. The ribbon is pulled by a motor driven wheel 32 on both sides thereof, but the specification explains that in other embodiments, the first or last wheel in the train, or any other wheel, could be driven with the same effect by virtue of the driving connection between the adjacent wheels. The specification also identifies a variety of other structures that could accomplish this same or equivalent function:

1. Adjacent belts or wheels in pressing contact and between which ribbon is squeezed.
2. A single wheel, 82 (Figure 11);
3. A conveyer belt working against a fixed roller or another belt.

Because a means-plus-function patent must be construed "to cover the corresponding structure, material or acts described in the specification" these structures constitute mechanical drive means under the '492 patent.

The Court also rejects Hallmark's argument that such a construction effectively reads the word "wheel" out of the patent. All of these structures, as well as all traditional conveyor belts, use wheels to drive the belts and consequently use wheels to drive whatever they are moving. Moreover, the Court believes that Hallmark reads the word "alternatively," found in the '492 specifications, too broadly. The Court does not find that this language limits the patent such that conveyor belts may only be used alternatively with "wheels." Rather this language indicates that individuals may use simple wheels or alternative means to pull the ribbon across the curling means.

For the reasons mention above [16], the Court finds that it is appropriate to interpret the "drive means" language in Claim 19 as being equivalent to the "mechanical drive wheel means" language in Claim 1.[17]

C. Guide Means

The Court finds that the "ribbon guide means" element of Claims 17 and Claim 19 should be construed as a guide which is a guide which is physically located between the drive means and the curling means and which performs the function of controlling the approach angle to the drive means. The Court bases this conclusion on the following reasons.

Claims 17 and 19 of the '492 Patent contain an additional limitation not found in the other asserted claims—a "ribbon guide means (81) intermediate said curling means and drive means, said ribbon guide means (81) controlling the approach angle of ribbon to said drive means, said ribbon guide means (81) forming a convex guide surface." Group One asserts that Hallmark uses devices that are "intermediate" of some, but not all, of the components in the alleged drive means. It also claims that Hallmark uses metal tabs located between the curling blade and the nip rollers in the curling station to perform the function of controlling the approach angle to the nip rollers.

The parties dispute on this issue focuses on whether the '492 Patent requires the guide means to be located between all of the drive means and the curling means or whether it is sufficient if the guide means is located between part of the drive means and the curling means. The dispute focuses on

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[16] See Courts earlier discussion of *Builder's Concrete*.

[17] If it were to have reached this issued, and applied the facts of this case to this claim construction, the Court would have concluded that there are material issues of fact in dispute as to whether Hallmark's machines No. 1-7, and modified machine No. 7, infringe Group One's '492 and '752 Patents.

the meaning the word intermediate. The Court concludes that the patent simply requires that the guide be located between, or intermediate, the curling means and another location where it controls the approach angle of the ribbon to the drive means, even if it is not the between the curling means and the entire drive means.[18]

VII. CONCLUSION

For the reasons stated above, it is hereby ORDERED that Defendant Hallmark's motion for summary judgment on Counts I and II of Plaintiff Group One's Amend Complaint is GRANTED.

It is further ORDERED that Hallmark's motion for summary judgment on its counterclaim is GRANTED.

IT IS SO ORDERED.

/s/ Dean Whipple
DEAN WHIPPLE
United States District Judge

Date Sept. 2, 1999.

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[18] If it were to have reached this issued, and applied the facts of this case to this claim construction, the Court would have concluded that there are material issues of fact in dispute as to whether Hallmark's machines No. 1-7, and modified machine No. 7, infringe Group One's '492 and '152 Patents.

APPENDIX F

IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF MISSOURI
WESTERN DIVISION

[Filed Jul. 29, 1999]

No. 97-1224-CV-W-1

GROUP ONE LTD.,

Plaintiff,

v.

HALLMARK CARDS, INC.,

Defendant.

ORDER

Pending before the Court is Defendant Hallmark Cards, Inc's (Hallmark) motion for summary judgment on Counts III and IV of Plaintiff's Complaint. [Docs. 137, 162] Plaintiff Group One Ltd. (Group One) has filed suggestions in opposition and sur-reply to Hallmark's motion. [Docs. 150, 182] Hallmark has filed a reply brief and a reply to Group One's sur-reply. [Docs.170, 198] Oral argument was heard on this motion On July 6, 1999. The Court has considered all of these motions and the entire record in rendering its decision. For the following reasons, Hallmark's motion is DENIED.

I. FACTUAL BACKGROUND

The facts in this case have been construed in the light most favorable to Group One for purposes of this motion. The parties have extensively detailed the relevant facts in their motions. Moreover, unless it has considered disputed facts in favor of Group One, the Court has not considered any facts

which were objected to by the parties as being in dispute. The Court will supplement this portion of its Order at a latter date.

II. MOTION TO STRIKE

Group One has filed motion to strike Exhibit 1 of Hallmark's reply suggestions. Group One contends consideration of this document violates Federal Rule of Evidence 408. The Court concludes that because this document has not been offered "to prove liability for or invalidity of the claim or its amount" it is admissible. Group One's motion [Doc.174] is DENIED.[1]

III. SUMMARY JUDGMENT STANDARD

A movant is entitled to summary judgment if there is "no genuine issue as to any material fact and [ ] the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c). The moving party bears the burden of proof. *Aetna Life Ins. Co. v. Great Nat'l Corp.*, 818 F.2d 19, 20 (8th Cir.1987). When considering a motion for summary judgment, a court must scrutinize the evidence in the light most favorable to the nonmoving party and "give [the nonmoving party] the benefit of all reasonable inferences." *Mirax Chem. Prods. Corp. v. First Interstate Commercial Corp.*, 950 F.2d 566, 569 (8th Cir.1991). Moreover, "[b]ecause discrimination cases often depend on inferences rather than on direct evidence, summary judgment should not be granted unless the evidence could not support any reasonable inference for the nonmovant." *Crawford v. Runyon*, 37 F.3d 1338, 1341 (8th Cir.1994).

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[1] In ruling on this motion the Court considered Group One's suggestions in support of its motion and its reply suggestions, Hallmark's suggestions in opposition to the motion and its sur-reply suggestions. [Docs. 174, 193, 200, __] Accordingly, Hallmark's motion for leave to file sur-reply suggestions in opposition to Group One's motion to strike is granted. [Docs. 207, 214]

Once the moving party discharges its initial burden, the nonmoving party "may not rest upon the mere allegations or denials of the adverse party's pleading, but . . . must set forth specific facts showing that there is a genuine issue for trial." Fed. R. Civ. P. 56(e). The moving party may not "simply show that there is some metaphysical doubt as to the material facts." *Matsushita Electric Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586, 106 S. Ct. 1348, 1355-56, 89 L. Ed.2d 538 (1986).

IV. DISCUSSION

Hallmark has moved for summary judgment on Counts III and IV of Group One's Complaint. In Count III Group One asserts a misappropriation of trade secret claim. In Count IV Group One asserts a claim for unjust enrichment.

A. Misappropriation of Trade Secrets

In Count III of its Complaint, Group One accuses Hallmark of misappropriating its trade secrets. Under Missouri common law,[2] a plaintiff who seeks recovery for misappropriation of trade secrets must prove: (1) the existence of a trade secret; (2) communicated to the defendant; (3) while he was

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[2] The Missouri Uniform Trade Secrets Act, Mo. Rev. Stat. §§ 417.50 *et seq.*, enacted in 1997, expressly excludes from its reach any continuing misappropriation that began prior to the enactment of the statate. The Act provides: "With respect to a continuing misappropriation that began prior to August 28, 1995, [the Act] shall not apply to the continuing misappropriation that occurs after such date." Mo. Rev. Stat. § 417.467. The parties do not dispute, and the Court finds, that this case is governed by Missouri common law because the alleged misappropriation began in 1992.

in a position of trust and confidence; and (4) use of the trade secret by the defendant (5) to the injury of the plaintiff.[3] [4]

1. Prongs 1 + 2: the existence of a trade secret communicated to the defendant

Hallmark does not dispute that the information which Goldstein revealed to it constitutes a trade secret. Accordingly, the Court assumes without deciding that a trade secret exists and that the first prong of the *Reddi-Wip* test is satisfied. Moreover, the parties do not dispute that Goldstein communicated his trade secret to Hallmark by way of a 17-minute telephone conversation with Stan Ring on February 14, 1992.

2. Prong 3: a position of trust or confidence

Hallmark does not dispute that it was in a position of trust and confidence with Group One when the trade secret was revealed. Hallmark, however, has made the argument that it was only in a position of trust or confidence because of a Confidential Disclosure Agreement (CDA) and that the confidential relationship between the parties must be defined by the terms of this agreement.

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[3] *See Reddi-Wip, Inc. v. Lemay Valve Co.*, 354 S.W.2d 913, 917 (Mo. Ct. App. 1962) (citing *Smith v. Dravo Corp.*, 203 F.2d 369, 373 (7th Cir.1953)); *Neil and Spencer Holdings Ltd. v. Kleen-Rite, Inc.*, 479 F.Supp. 164, 169-70 (E.D. Mo.1979); *see also Contour Chair Lounge Co. v. True-fit Chair, Inc.*, 648 F.Supp. 704, 716 (ED. Mo. 1986) ("Under Missouri law, to prevail in an action for trade secret misappropriation, a plaintiff must prove the existence of a trade secret, plaintiff's maintenance of secrecy, and defendant's unlawful acquisition and use of the secret.") (citing *Carboline Co. Jarboe*, 454 S.W.2d 540, 549 (Mo. 1970)).

[4] Although, Hallmark has either conceded or failed to contest several of these elements for purposes of summary judgment, the Court notes that burden of proving each of these elements would fall on Group One if this case proceeds to trial. *Id.*

a. Oral disclosures by Group One were not protected

Hallmark makes the following argument. Following an expression of interest by Hallmark in Goldstein's invention, he wrote to Hallmark on December 4, 1991. Enclosed in this letter was a draft CDA regarding his ribbon curling and shredding machine. On February 4, 1992, Hallmark Engineer Stan Ring wrote Goldstein to express a possible interest in buying Group One's machine which could be used to produce stands of curled ribbon to be packaged in cellophane bags and offered for sale.

Ring and Goldstein planned to meet in New York during the week of February 17, 1992, at which time Goldstein was to show Ring a portable prototype model of his ribbon curling machine. During a telephone conversation on February 6, 1992, Goldstein explained to ring, however, that he would not show him the prototype unless Hallmark signed his previously-tendered CDA. The CDA which was tendered by Hallmark and signed by Goldstein stated in relevant part that

> GROUP ONE possess [sic] certain information regarding a ribbon curling and shredding machine and described in UK patent application No. 9124249 (hereinafter referred to as the "INFORMATION" . . . HALLMARK has expressed an interest in examining and evaluating the INFORMATION . . .
>
> NOW THEREFORE the parties have agreed to the following:
>
> 1. GROUP ONE will disclose the INFORMATION to HALLMARK by way of writing, drawing, photos, and/or actual prototype model or models.
> 2. In consideration of the disclosure of the INFORMATION by GROUP ONE, HALLMARK agrees to treat the INFORMATION with all reasonable care to avoid disclosure of the same to any third party

subject only to the terms of paragraph 4 hereof. HALLMARK shall have no obligation in regard to the INFORMATION or any part therefore which:

(a) is disclosed by GROUP ONE to HALLMARK but does not fall within paragraph 1 hereof or does not pertain to the machine described in the first "whereas" clause above. . .

(e) was at the time of disclosure by GROUP ONE in the public domain or subsequently becomes so.

Group One premises its trade secret claim solely on information allegedly communicated by Goldstein to Ring during their 17-minute telephone conversation on February 14, 1991. Group One does not allege that Goldstein provided Ring or anyone else at Hallmark with drawings, sketches, photographs, or any other written information regarding the design or operation of his automated ribbon cutting device. Rather, the information allegedly provided by Goldstein during his telephone conversation with Ring was disclosed orally.

Accordingly, Hallmark's argument takes the following form. First, Hallmark argues that a confidential relationship between it and Group One could have only existed if Hallmark was bound to the CDA which Goldstein signed. Second, it assumes that for purposes of this motion a confidential relationship did exist between Hallmark and Group One.[5] Third, Hallmark argues that because its

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[5] Although both parties admit that Hallmark did not sign any version of a CDA, Hallmark has attempted to limit its confidential relationship with Group One, by assuming for purposes of this motion that it was bound to the CDA which Goldstein signed. [Doc. 162, Ex. 5] Hallmark has made much of the fact that as of February 14, 1992, Goldstein believed that Hallmark had agreed to the terms of the CDA and had signed the agreement. The Court fails to see how Goldstein's state of mind regarding Hallmark's acceptance is relevant to this issue. As admitted by Hallmark in its brief, it is an undisputed fact that Hallmark did not sign the

confidential relationship with Group One was based on the CDA, that the confidential relationship must also be limited by the terms of the CDA. Fourth, Hallmark argues that because paragraph 1 of the CDA fails to mention INFORMATION "orally" disclosed to Hallmark, Ring's conversation with Goldstein "does not fall within paragraph 1" and therefore is excluded from the CDA pursuant to paragraph 2(a).

b. Is the confidential relationship between Group One and Hallmark limited to the terms of the CDA?

Hallmark's premise, however, is flawed under Missouri law. The parties did not have to sign a CDA for a confidential relationship to exist. The Eighth Circuit relying on the Missouri Supreme Court has stated that "[N]o particular form is required for a confidential relationship; the question, rather, 'is simply whether in the circumstances B knows or should know that the information is A's trade secret and that its disclosure is made in confidence.' Certain disclosures thus may be considered confidential by general implication." *A.L. Labs., Inc. v. Philips Roxane, Inc.*, 803 F.2d 378, 382 (8th Cir.1986) (quoting *National Rejectors v. Trieman*, 409 S.W.2d 1, 34-36 (Mo. 1966) (other citations omitted)). Accordingly, a confidential relationship between Group One and Hallmark may exist even if Hallmark did not sign a CDA. Moreover, the Court finds no reason why Hallmark should be allowed to benefit from the terms of a contract which it refused to sign.[6] Consequently, Hallmark's

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agreement. If Hallmark wanted to limit, or simply delineate, the terms of its confidential agreement with Goldstein and Group One they could have signed the CDA. Hallmark failed to do this and it has failed to advance any legal theory which would allow it to benefit from the terms of that agreement.

[6] *See, supra*, note 5.

argument, that if there is a confidential relationship it is limited to the terms of the CDA Goldstein signed, is rejected by the Court.

c. Did a confidential relationship exist between Group One and Hallmark at the time of Goldstein's conversation with Ring?

Although Group One is not bound to the terms of a CDA which Hallmark refused to sign, Group One must prove that a confidential relationship existed between it and Hallmark. *See Baxter Int'l Inc. v. Morris*, 976 F.2d 1189, 1193 (8th Cir. 1992) (holding that the burden of proving the existence of a trade secret lies with the party seeking protection); *Carboline*, 454 S.W.2d 540, 549, (Mo. 1970) (same). As noted above, certain disclosures may be considered confidential by general implication. *A.L. Labs.*, 803 F.2d at 382. The Court finds that at the very least, there is a factual dispute as to whether Hallmark knew that the information conveyed to Ring on February 14, 1992 was Group One's trade secret and disclosed in confidence.[7]

Goldstein was obviously concerned about confidentiality and protecting his trade secret. He had already faxed Hallmark a CDA and Hallmark had returned a modified CDA to him. Goldstein and Ring had several conversations regarding his and Hallmark's CDA. Ring also sent Goldstein a note stating "Our reputation is, as your's, built on honesty. Let's leave as is and get on with it." Moreover, Goldstein testified is his deposition that he was led to believe that the modified CDA was in effect between the parties when he had his telephone conversation with Stan Ring on February 14,

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[7] Because only Hallmark has moved for summary judgment on this issue, the Court need not decide whether the parties actions created a confidential relationship as a matter of law, the Court merely finds that Hallmark has failed to prove that as a matter of a law a confidential relationship did not exist.

1992. Looking at these facts in the light most favorable to Group One, the Court cannot say that as a matter of law Hallmark did not know or should not have known that the information disclosed to Ring was Group One's trade secret and that its disclosure was made in confidence. Consequently, notwithstanding Hallmark's failure to sign a CDA and the Court's refusal to limit the terms of the confidential relationship to the CDA, the Court cannot say as a matter of law that a confidential relationship did not exist between Group One and Hallmark.

3. Did public disclosure of the trade secret on May 27, 1993, bar Group One's claim?

In this case, each and every element of Goldstein's automated ribbon curling machine was revealed to the world on May 27, 1993, when Goldstein's PCT Application to the European Patent Office was formally published.[8] At that time, the European application was placed on file in the European Patent Office and with the World Intellectual Property Organization, where it was also available for public examination.

a. Public disclosure of trade secrets under Missouri common law

Hallmark advances two separate arguments why this public disclosure precludes Group One from asserting its misappropriation of trade secrets claim. First, Hallmark argues that under Missouri law public disclosure prevents one from

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[8] In American patent practice, there is no public disclosure until the patent issues. Under the Patent Cooperation treaty (PCT) that governed Goldstein's PCT Application, however, the contents of a patent application are published 18 months after the filing of an application or any preceding application to which a PCT application relates. Pursuant to PCT practice, Goldstein's PCT Application was published 18 months after the filing of his U.K. Application upon which the PCT filing was based.

asserting trade secret protection. Second, Hallmark argues that under the terms of the CDA signed by Goldstein any information which becomes public is no longer subject to the confidentiality agreement. Since the Court has already held that the parties are not bound to the terms of the CDA in establishing the bounds of their confidential relationship, the Court rejects Hallmarks second argument.

Turning to Hallmark's first argument, Missouri has adopted the trade secret definition of the Restatement of Torts, which provides that "[m]atters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret." *National Rejectors*, 409 S.W.2d at 19 (Mo. 1966) (quoting Restatement of Torts § 757 cmt. b). Once a secret has been revealed, there is no cause of action for its use under Missouri law. *See Reddi-Wip, Inc.*, 354 S.W.2d at 917 ("Inasmuch as the first essential element of such a cause of action is the existence of a trade secret, the courts have generally held that a disclosure of the trade secret, by legitimate discovery by a competitor or voluntarily by the original discovers, will defeat liability"); *see also Carboline Co. v. Jarboe*, 454 S.W.2d 540, 550 (Mo. 1970); *Food-Processes, Inc. v. Swift & Co.*, 280 F.Supp. 353, 363 (W.D.Mo.1966). As a result of the public availability of Goldstein's PCT application, any trade secret status for the design of the ribbon curling machine was surrendered, beginning on May 27, 1993. *See Reddi-Wip, Inc.*, 354 S.W.2d at 917 (quoting *Sandlin v. Johnson*, 141 F.2d 660, 661 (8th Cir.1944) ("If a discovery is one which constitutes invention and for which a patent is issued, the right of further secrecy is, of course, lost, for a legal disclosure and public dedication have then been made, with a right of limited and temporary monopoly granted as the reward").

Group One raises four arguments in response to Hallmark's contention that publication of its patent by the European Patent Office precludes trade secret status for that

information. First, Group One argues that Missouri law recognizes a cause of action for breach of a confidence regardless of whether the information was a trade secret. Second, Group One asserts that Hallmark has failed to establish that PCT publication invalidates trade secret status under Missouri law. Third, Group One contends that because Hallmark received a head start from obtaining Group One's trade secrets prior to PCT publication, that it is still liable for misappropriation of trade secrets. Fourth, Group One argues that Hallmark's position would create a new loophole in patent law with international implications.

1. Relationship v. Property: Does Missouri law recognize a cause of action for breach of confidence when the information is not a trade secret? [9]

Group One argues that under Missouri law, even if information has lost its status as a trade secret, an individual may still be liable for misappropriating information through breach of a confidential relationship. Group One cites to several cases in which the courts have held that even though information has become public and no longer qualifies as a trade secret, defendants should not be allowed to benefit from their breach of a confidence in obtaining that information. *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219, 1228 (7th Cir.1982) (applying Minnesota law) ("The fact that in the course of [defendant's] conduct, public disclosures revealed [plaintiff's] original concept does not negate [defendant's]

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[9] Hallmark objects to this argument by Group One on the basis that it is a new legal theory and that Group One should not be allowed to raise a new argument in its suggestions in opposition to summary judgment. *See Pritchard v. Rainfair, Inc.*, 945 F.2d 185, 191 (7th Cir. 1991). The Court disagrees that Group One has raised a new argument at this point in the case and rejects Hallmark's argument. The Court, however, rejects Group One's breach of confidential relationship argument on its merits.

bad faith both before and after the disclosures.").[10] In these cases, the defendants must prove that they actually obtained the relevant information from a public source and not from the abuse of a confidential relationship. This relationship view or breach of confidence rule, however, has been widely criticized and rejected by many courts. *See e.g., Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 897 n.5 (Minn. 1993) (explicitly rejecting the holding of *Goldberg*) ("the elements of trade secret status and the confidentiality of the relationship should not be artificially separated for purposes of analysis since, in a significant sense, they an interdependent." (citations omitted)); *Nilssen v. Motorola, Inc.*, 963 F. Supp. 664, 675 (ND. Ill. 1997) (finding *Goldberg* and its progeny no longer applicable).[11]

In support of its argument, Group One places significant weight, if not heavy reliance, on the Missouri Supreme Court's decision in *National Rejectors*. Simply put, *National Rejectors* is not a model of judicial clarity.[12] In *National Rejectors*, the Missouri Supreme Court specifically refused to enjoin any of the defendants accused of trade secret misappropriation because the information at issue had been

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[10] *Servo Corp. of America v. General Electric Co.*, 393 F.2d 551, 555 (4th Cir. 1968); *Smith v. Dravo Corp.*, 203 F.2d 369, 374-75 (7th Cir.1953); *U.S.M. Corp. v. Marson Fastener Corp.*, 393 N.E.2d 895, 903 (Mass. 1979) (dictum); *Julius Hyman & Co. v. Velsicol Corp.*, 233 P.2d 977, 981 (Colo. 1951).

[11] *See also Jostens, Inc. v. National Computer Systems*, 318 N.W.2d 691, 701 (Minn. 1982). Accord, *Henry Hope X-Ray Products, Inc. v. Marron Carrel, Inc.*, 674 F.2d 1336, 1341 (9th Cir. 1982) (reluctantly following Pennsylvania Law); *Kubik, Inc. v. Hull*, 224 N.W.2d 80, 92 (Mich. Ct. App. 1974); *Van Products Co. v. General Welding & Fabrication Co.*, 213 A.2d 769, 780 (Pa.1965); *National Starch Prods. Inc. v. Polymer Indus. Inc.*, 79 N.Y.S.2d 357 (N.Y. App. Div. 1948).

[12] The parties in this case have described this opinion as "tortured" and "grueling." The Court merely hopes that this opinion does not generate similar feelings.

publicly disclosed, or otherwise did not qualify as a trade secret. *Id.* at 42. Nonetheless, the court remanded the case to allow the plaintiffs to prove damages premised upon the theory that defendants availed themselves of a "shortcut" or "head start" by misusing plaintiff's business information. *Id.* 42-44.

This Court does not believe that *National Rejectors*, or any other Missouri case, stands for the proposition that a plaintiff should be allowed to recover damages based solely upon the abuse of a confidential relationship. Rather the Court believes that it is more appropriate to read *National Rejectors*, in the following way: Plaintiffs do not have a claim for injunctive relief for breach of a confidential relationship when the information has been publicly disclosed and no longer rises to the level of a trade secret, however, even though information has become public and no longer constitutes a trade secret, plaintiffs may have a claim for misappropriation of trade secrets if this information was misappropriated prior to the time that it entered the public domain. Although possibly strained, the Court believes that this reading of *National Rejectors*, accurately reflects the state of the law in Missouri.

Moreover, leading commentators have counseled such an approach to trade secret law. "While there is controversy within the circuits about post-patent injunctive relief, there is unanimity that a cause of action for misappropriation of confidential information prior to its public disclosure by patent issuance survives issuance. Thus, whereas an injunction might not issue to restrain future use of information acquired before the issuance of a patent making such information generally available, an action for damages for the wrongful use of such information by defendant prior to the issuance of the patents is universally recognized." 1 Robert M. Milgrim, Milgrim on Trade Secrets § 1.06[3] (1999) (emphasis in original) (citations omitted).

Without explicitly stating so, Group One is referring to two competing views of trade secret law, the "relationship" view and the "property" view.[13] Although the property and re lationship view are often discussed in the employer/ employee trade secret context, it is still helpful to consider these concepts in this case. Under the relationship view, a plaintiff can assert a claim for theft of trade secrets against a defendant who misappropriated the plaintiff's information to which the defendant had access because of a confidential relationship, such as employment. Because of the abuse of the confidential relationship, the plaintiff can prevail even if the information is not otherwise secret. In contrast, under the property view the plaintiff's information must be secret for the plaintiff to prevail, even if the defendant originally obtained access to the information through a confidential relationship. Group One argues that Missouri law follows the relationship view of trade secret law, while Hallmark argues that Missouri has adopted the property view of trade secret law.

Commentators have long complained that courts do not agree on the proper legal rationale for granting trade secret protection.[14] It could be argued that both theories are reflected in the law because the law requires that a plaintiff prove the existence of a trade secret as well as mis-appropriation by the defendant. The divergent views on the legal rationales, however, have created jurisprudential difficulties and fostered the uncertainties that exist within trade secret law. This divergence of legal views is also evident in this area of the law.

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[13] Lynn C. Tyler, *Trade Secrets in Indiana; Property v. Relationship*, 31 IND. L. REV. 339 (1998); Miles J. Feldman, *Toward a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship*, 9 HIGH TECH L.J. 151, 163 (1994); *see also* Miguel Deutch, *The Property Concept of Trade Secrets in Anglo-American Law: An Ongoing Debate*, 31 U. RICH. L. REV. 313 (1997).

[14] *See, supra*, note 10.

The Court has been unable to find any Missouri case, or case applying Missouri law, which has addressed this issue. The Court, however, believes that if it were confronted with this issue the Missouri Supreme Court would follow the majority of the courts and adopt a property view of trade secret law. This is significant because under the property view, "[t]he starting point in every case of this sort is not whether there was a confidential relationship, but whether, in fact, there was a trade secret to be misappropriated." *Van Prods. Co.*, 213 A.2d at 780 (citations omitted). Accordingly, the Court agrees with Hallmark that under Missouri law it does not matter how they found out about Group One's ribbon curling machine, once that information was in the public domain it was no longer a trade secret.

This finding, however, does not end the analysis of this case. On May 27, 1993, the information regarding Group One's ribbon curling machine may have no longer been a trade secret, but Hallmark obtained this information more than a year prior to this date, on February 14, 1992. Consequently, at the time Hallmark allegedly breached its confidential relationship with Group One this information was not in the public domain. Therefore, even though this Court has rejected Group One's argument that Missouri recognizes a cause of action merely for breach of confidence, the fact remains that Hallmark had obtained the relevant information before it was in the public domain. Accordingly, Group One may have a cause of action for misappropriation of trade secret if Hallmark acted improperly prior to May 27, 1993.

2. The effect of PCT publication under Missouri law

Group One argues that Missouri follows the rule that *issuance* of a patent to a party asserting a trade secret claim ends the element of secrecy necessary for a trade secret. *Reddi-Wip, Inc.*, 354 S.W.2d at 917 (Mo. Ct. App. 1962). It contends, however, that the mere application for a patent is

not a general disclosure of the inventor's secret. *See Sandlin*, 141 F.2d 660, 661 (8th Cir.1944). In a United States patent application, secrecy is not surrendered by a patentee because applications are held strictly confidential by the PTO. *Id.* Once a patent issues in the United States, however, the right of further secrecy is lost, "for a legal disclosure and public dedication have then been made, with a right of limited and temporary monopoly granted as a reward." *Id.*

In support of its argument, Group One has cited to cases considering the application for American patents out of context. In the United States, there is no publication of a patent until the patent issues. While under the PCT, patents are published 18 months after the applicable filing. Therefore, in the cases cited by Group One publication occurred at the time the patent issued. Issuance of the patent was not itself a significant event, other than the fact that it was that time that the patents became public. In fact, the cases which Group One cites emphasize that the question is not when did the patent issues, but when did the information become public. *See AEE-EMF, Inc. v. Passmore*, 906 S.W.2d 714, 722 (Mo. Ct. App. 1995) ("Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret.").

This Court is unable to find any legal support for the proposition that it is the issuance of a patent and not the public disclosure of the information in the patent application which causes an inventor to forfeit his or her trade secret protection. In his treatise of trade secrets Milgrim notes, "The basic rule with respect to disclosure by patent issuance of the trade secrets in them applies to foreign patents and published patent applications." 1 Robert M. Milgrim, Milgrim on Trade Secrets § 1.06[5] (1999) (citation omitted). The emphasis is placed on disclosure of the trade secret through the patent process, and not on the issuance of a

patent.[15] Because Missouri law focuses on public disclosure of a trade secret and not on the importance of patent issuance, the Court rejects Group One's argument that only the issuance of a patent places a trade secret in the public domain.

3. Effect of obtaining a "head start" from trade secrets

The Court finds Group One's "head start" argument to be more appropriate and more persuasive than its beach of confidential relationship argument. Group One argues that Hallmark misused its trade secrets to obtain a shortcut or head start prior to the PCT publication date. In March 1992, over a year prior to the PCT publication date, Hallmark's engineer Ronald Smith constructed a prototype ribbon curling machine. This effort was known as the Curly Q Ribbon Project. Group One alleges that this machine was developed based upon the information that Goldstein communicated to Stan Ring on February 14, 1992. They argue that the experience which Hallmark gained by seeing Group One's ideas put into action in the Curly Q Ribbon Project provided Hallmark with a shortcut in his work developing the concept for Hallmark's production model Curl Cascade machine in 1994. Hallmark responds that because it had not developed a functioning ribbon curling machine, with an air blower, prior to May 27, 1993 it did not misappropriate any trade secret from Group One. The Court concludes, however, that there is a factual dispute regarding what Hallmark learned regarding

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[15] Milgrim cautions that while this approach may "appear logical," it "might be more readily subject to the rule enunciated by some courts as to a defendant which, in fact, received the information exclusively from the plaintiff, and had no familiarity with 'prior art' until urging it as a defense after litigation was commenced." 1 Robert M. Milgrim, Milgrim on Trade Secrets § 1.06[5] (1999) (citation omitted). The Court does not believe that Missouri has adopted this equitable approach to trade secret disclosure. As noted above, however, the Court believes that Missouri has adopted a "property" view of trade secret law and that therefore the emphasis is on actual public disclosure and not on what defendants knew at the time of disclosure.

ribbon curling machines and the use of Group One's trade secrets prior to May 27, 1993. Even if Hallmark did not construct a functioning ribbon curling machine prior to May 27, 1993, it still may have used Group One's trade secrets to obtain a head start in constructing its machine at a latter date. Construing the facts in a light most favorable to Group One, the Court cannot say as a matter of law that Hallmark did not obtain a head start prior to May 27, 1993 or that this head start did not injury Group One.

Several cases indicate that Missouri has adopted the head start approach to trade secret protection. *Baxter*, 976 F.2d at 1195; *Carboline*, 454 S.W.2d a 552; *National Rejectors*, 409 S.W.2d at 42-45. The head start approach to trade secrets is typically applied in the context of covenants not to compete. Employers often seek injunctions against former employees who may inevitably reveal trade secrets to new employers. The head start approach requires courts to permanently enjoin former employees unless it makes a finding of fact concerning the length of time in which the new employer could independently develop the information. The Missouri Supreme Court, however, has held that head start approach is relevant in determining monetary damages when a defendant has misappropriated a trade secret. *Carboline*, 454 S.W.2d at 553 (holding defendant would only be liable for net-profit it received during head start period if it could prove relevant time). The Court concludes that Missouri recognizes a cause of action for misappropriation of trade secrets, if a defendant has obtained a head start in copying a plaintiff's invention by obtaining trade secret information through breach of confidence, even if that information subsequently losses its trade secret status due to public disclosure. Moreover, Hallmark has failed to demonstrate as matter of law that Group One cannot prove that it misappropriated its trade secrets prior to May 27, 1993.

4. Creation of a new loophole in patent law

In this Order, the Court has held that public disclosure of information prevents the assertion that information is a trade secret. The Court does not believe that Missouri, or any other jurisdiction, has held that the issuance of a patent bares any significance in trade secret law other than the fact that under United States law a patent is not disclosed publicly until it is issued. Accordingly, the Court rejects Group One's argument that if a trade secret is disclosed to the public vi publication foreign patent prior to the time it issues that this creates "a new loophole" in trade secret law.

4. Prongs 4+5: Did Hallmark use Group One's trade secret to Group One's injury?

Hallmark has failed to argue that, as a matter of law, Group One cannot prove prongs four of five of the *Reddi-Wip* test. Accordingly, on the record currently before the Court a material issue of fact is in dispute on these points and they will be submitted to the jury.

B. Group One's Unjust Enrichment Claim

Hallmark argues that Group One's unjust enrichment claim cannot stand on its own, but must be premised on an underlying substantive claim. Hallmark contends that Group One's unjust enrichment claim is premised on its trade secret claim, and that since its trade secret claim must be dismissed on summary judgment, then its unjust enrichment claim must also be dismissed on summary judgment. Because the Court has not dismissed Group One's trade secret claim on summary judgment, Hallmark's argument that Count IV should be dismissed on summary judgment is easily rejected.[16]

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[16] In an effort to avoid possible problems at trial, the Court notes that it also disagrees with Hallmark's premise that a claim for unjust enrichment in Missouri cannot stand on its own, but must be premised on an

CONCLUSION

The Court concludes that material issues of fact remain in dispute in this case regarding the issue of whether Hallmark has misappropriated Group One's trade secrets. Specifically, notwithstanding its failure to sign a CDA, Hallmark has failed to prove that as a matter of law a confidential relationship did not exist between it and Group One on February 14, 1992. Additionally, Hallmark has failed to prove as a matter of law that it did not use Group One's trade seems to Group One's injury between February 14, 1992 and May 27, 1993. Accordingly, it is hereby ORDERED that Defendant Hallmark's notion for summary judgment on Counts III and IV of Plaintiff Group One's Complain is DENIED,

IT IS SO ORDERED.

/s/ Dean Whipple
DEAN WHIPPLE
United States District Judge

Date July 29, 1999.

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underlying substantive offense. *See Planet Prods. Inc. v. Shank*, 119 F.3d 729, 733 (8th Cir.1997) (citing *Ticor Title Ins. Co. v. Mindelius*, 887 S.W.2d 726, 727 (Mo. Ct. App. 1994)); *Insuen Packaging Equipment Corp. v. Integrated Indus. Servs. Inc.*, 970 S.W.2d 360, 366 (Mo. Ct. App. 1998) ("The elements of unjust enrichment are: (1) a benefit conferred upon defendant by plaintiff; (2) appreciation of the fact of such benefit by defendant; (3) acceptance and retention by the defendant of that benefit under circumstances in which retention without payment would be inequitable.").

Supreme Court, U.S.
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In The

Supreme Court of the United States

HALLMARK CARDS, INCORPORATED,

Petitioner,

v.

GROUP ONE LTD.,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF RESPONDENT GROUP ONE, LTD. IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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QUESTIONS ACTUALLY PRESENTED FOR REVIEW

1. Did the Federal Circuit err in concluding that under the facts of this case – where no details of the invention were disclosed, including how it worked or even how much it would cost – there was no definite offer to sell the patented invention as required by Federal Circuit precedent?

2. Did the Federal Circuit err in setting forth a bright-line test for the on-sale bar, namely, only an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b), particularly where the bright-line test is consistent both with binding precedent and all other cases cited by Petitioner?

RULE 29.6 LISTING

There are no parent companies or nonwholly-owned subsidiaries of Respondent Group One Ltd.

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I. COUNTERSTATEMENT OF THE CASE

A. Factual Background

In its Statement of the Case, Petitioner Hallmark Cards, Inc. ("Hallmark") avers that certain pre-critical date communications by Respondent Group One, Ltd. ("Group One") "would have triggered the on sale bar under its [the Federal Circuit] prior jurisprudence." (Petition at 7).

The Federal Circuit certainly never so held; indeed *all* that the Federal Circuit ever said about Group One's conduct was that

> On appeal here, the parties do not dispute the conclusion by the district court, with which we agree, that no such commercial offer to sell was made.

(*Id.* Appendix C at 15a). This conclusion was not only undisputed, it was unassailable.

Filling in Hallmark's bare bones synopsis of the facts, Mr. Goldstein of Group One did indeed write to Hallmark in the summer of 1991, informing Hallmark that

> We have developed a machine which can curl and shred ribbon . . . We could provide the machine and/or technology and work on a license/royalty basis. (A1150).

Prior to Mr. Goldstein's invention, Hallmark (the world's leading marketer of gift accessories) had sold hundreds of millions of dollars worth of *uncurled* ribbon. In spite of Hallmark's market experience and expertise, it had never occurred to Hallmark that ribbon could be sold in a precurled state, for example as a gift box filler

(instead of tissue paper) or as preformed "curly" bows. Not only was the precurled ribbon product new, but so too was Mr. Goldstein's machine for mass-producing it. Contrary to Hallmark's assertion that "[t]his process had been mechanized for decades" (Petition at 3), the only "prior art" relied upon by Hallmark was the same old patent cited by the PTO which describes a limited production device for curling *paper*. (*See*, A2318-21).

It was only after the critical date that (in the words of the Federal Circuit):

> Hallmark and Goldstein arranged a meeting to discuss details of the curling and shredding machine for February 17, 1992. Prior to the meeting, the parties negotiated a Confidential Disclosure Agreement ("CDA") regarding the technology to be discussed at the meeting. However, despite essential agreement on the terms of the CDA, Hallmark never signed it. On February 14, 1992, shortly before the scheduled meeting, Goldstein had a telephone conference with a Hallmark engineer, in which the parties discussed details of Group One's machine and method. At the time, Goldstein had signed the CDA and (incorrectly) believed it to be in effect. Hallmark then cancelled the planned February 17 meeting, deciding it would instead evaluate its own internal capability of producing a curling and shredding machine.

(Petition at 7a). Hallmark did just that, and went on to sell literally tens of millions of dollars worth of the new precurled ribbon product.

Prior to the critical date (which was November 12, 1991), however, Mr. Goldstein refused to tell Hallmark

anything at all about his new machine: how it worked, its capacity, when or whether it could be delivered, *even the price*.

At all times prior to the critical date, Hallmark was utterly and completely clueless about Mr. Goldstein's machine. Far from being an "offer" under any standard applied in any prior case, Mr. Goldstein's pre-critical date communications were so devoid of detail as to render them useless in the real world of commerce, whether as an "offer," or even as a disclosure of Mr. Goldstein's invention.

This is borne out by the fact that it was three months *after* the critical date that Hallmark, through its chief engineer, finally responded to Mr. Goldstein's inquiries:

> First of all, I apologize for the delay in getting back to you. . . . As an engineer, I am interested in rate of product, power requirements (electricity, air, water), space requirements, weight, *method of operation* and *cost*. (A276).

Since Hallmark's own chief engineer was in the dark as to these most basic of details, it defies reality even to allege that anyone at Hallmark could have believed that they had an "offer" in hand. For all that Hallmark knew, Mr. Goldstein's "machine" could have been nothing more than a scissor blade across which uncurled ribbon is dragged, a device with which we are all familiar since childhood.

Hallmark's glib characterizations notwithstanding, Goldstein never told anyone anything else about his machine, and the district court so found:

> The indefinite nature of these communications and lack of specific terms, e.g. price is not mentioned, suggests that [the] communications were preliminary proposals or invitations to negotiate a sale of the product. . . . Group One's communications manifest an intent to begin negotiations and solicit preliminary proposals.

(Petition at 46a-49a).

It is these meager facts which Hallmark asserts "would have triggered the on sale bar under its [the Federal Circuit's] prior jurisprudence." (*Id.* at 7). What this "prior jurisprudence" is Hallmark does not say, and Hallmark is still unable to cite a single case which would have provided the basis for morphing Goldstein's letter into an offer for sale under 35 U.S.C. § 102(b).

B. The Federal Circuit Opinion Below

The Federal Circuit's opinion (Petition at 4a-24a) is noteworthy for its clarity, both as to what it did and did not undertake to do.

First, and foremost, the Federal Circuit faced head-on its own prior statement in *RCA Corp. v. Data General Corp.*, 887 F.2d 1056 (Fed. Cir. 1989), i.e., that the "requirement [of a definite offer for sale] may be met by a patentee's commercial activity which does not rise to the level of formal offer under contract law principles." By correctly noting that in *RCA* it was admitted that there was in fact an offer that could have been "accepted," the Federal Circuit made it clear that its statement was classic *dictum*. Just as important, the Court acknowledged that this *dictum* "opens up a vast sea of uncertainty, and

requires a whole new mode of analysis, one whose parameters remain ill-defined." (Petition at 13a).

Even as *dictum*, the statement was not rejected lightly. The Federal Circuit looked to its own *controlling precedent*, and noted, again correctly, that

> the parties have cited no other Federal Circuit cases since *RCA* that have actually found an offer to be an offer for sale for § 102(b) purposes unless the offer was a formal offer in the contract sense. In short, there is no binding precedent in this circuit that requires us to accept something less than an offer to contract as constituting an offer for sale as that term is construed for purposes of the on sale bar of 35 U.S.C. § 102(b).

(*Id.* at 11a).

Hallmark, in spite of its shrill protests that the Federal Circuit decision "radically changed" the on sale analysis (*Id.* at 2, 6), is still unable to cite a single case that imposed the bar based upon, in the words of the Federal Circuit, "something less than an offer to contract."

Having concluded that its own precedent was entirely consistent, and that the on sale bar had been imposed only when "the offer was a formal offer in the contract sense," the Federal Circuit clarified once and for all what its prior decisions had implied:

> Only an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b).

(*Id.* at 14a). By formulating such a precedent-consistent and bright-line standard, the Federal Circuit addressed the need acknowledged by this Court in *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 65 (1998):

> Petitioner correctly argues that these provisions [Section 102(b)] identify an interest in providing inventors with a definite standard for determining when a patent application must be filed.

The Federal Circuit's decision is also notable for what it did *not* undertake to do. As noted by the Court

> We do not mean to suggest that it will always be easy to ascertain whether a set of interactions between parties constitutes a commercial offer to sell. Nor do we propose to offer rules or even binding guidance for making such determinations, which offer would be little more than *obiter dictum*.

(*Id.* at 15a).

Having expressly refrained from even attempting to delineate how the above standard should be applied in each future case, the Federal Circuit nonetheless stated its confidence that this would prove to be a practical and workable undertaking. For example, the Court envisioned that in future cases "we will look to the Uniform Commercial Code ("UCC") to define whether, as in this case, a communication or series of communications rises to the level of a commercial offer for sale." The Federal Circuit also acknowledged that

> [t]he Supreme Court's formulation in *Pfaff* also supports consulting the UCC. The Supreme Court has also cited the Restatement of Contracts with approval in the commercial contract

> law context. *See Mobil Oil, Inc. v. United States*, 530 U.S. 604, 606-10 (2000).

It is this bright-line, yet flexible, test that Hallmark asks this Court to undo. According to Hallmark, this Court should revert to the *RCA dictum*, and undertake to hypothesize as to whether and to what extent "commercial activity which does not rise to the level of a formal 'offer' under contract law principles . . . such as advertising and promotion" might also meet the test.

The Federal Circuit decision also is notable for what it did *not* do.

First, its statement in *RCA* that

> [w]here there is no sale, a definite offer to sell is an essential requirement of the on sale bar

remains the law. The decision below merely clarifies the scope and meaning of a "definite offer to sell."

Second, the decision below did not deal at all with the statutory provisions that bar a patent for other reasons, for example, the § 102(b) provision that bars a patent on an invention that is in "public use" prior to the critical date. Thus by acknowledging that the "on sale" provision does not bar all "commercial" activities, the Federal Circuit left untouched the statutory provision whereby these *same* activities may be sufficient to create a *"public use"* bar. Included here would be the very activities that Hallmark here contends are permitted, indeed encouraged, by the Federal Circuit decision. Thus according to Hallmark

> Under the Court of Appeals' new framework, an inventor could now market an invention

> throughout the land by soliciting potential customers (as was found in the case at bar), attending trade shows, and even parroting verbatim the language of the statute – "My invention is on sale" – without triggering the on sale bar. The Court of Appeals acknowledged that activity of a clear commercial nature, such as "advertising and promoting of a product" – which, prior to its decision, would have been considered clear evidence that an invention was "on sale" – would not trigger the on sale bar. (15a.)

(Petition at 11).

What Hallmark does not acknowledge is that even under the Federal Circuit's decision, these same activities (soliciting customers, attending trade shows) cannot be undertaken with impunity, or without the risk that the invention will be deemed to have been "in public use" and hence not patentable. Indeed, and as explained *infra*, some of the very cases which Hallmark cites as embodying a lower standard for imposing the on sale bar (e.g., invalidating a patent because of trade show activities), in actual fact held the patent to be invalid because these activities violated the "public use" bar.

In total disregard of the "public use" bar to patent invalidity, Hallmark goes so far as to assert in its Statement of the Case that

> reversing the Federal Circuit's decision will prevent the issuance of *thousands of patents* on inventions that have been marketed for years without patent applications being filed, and that were presumed by unsuspecting competitors not to be subject to patents.

> Hallmark seeks review and reversal of this erroneous decision now to minimize the adverse effects of a later reversal on *thousands of patent holders* who will market their inventions on the basis of the Federal Circuit's erroneous decision only to later find out that they no longer have a valid patent.

(*Id.* at 3; emphasis added).

Hallmark's "sky is falling" prediction notwithstanding, the statutory "public use" bar awaits the inventor who would think that solely by avoiding a "commercial offer for sale," one is free to publicly "market" an invention indefinitely without losing the right to a patent.

Since it was conceded that Group One's pre-critical date activities did not come close to satisfying the clarified "on sale" test, the Federal Circuit reversed the district court's holding of invalidity, and remanded the case to the district court for trial on the merits, including Hallmark's other defense(s) of invalidity.

The Federal Circuit also declined to address Group One's alternative theory that "it was offering only to license the patent to Hallmark, and was not offering to license or sell the invention as such." (*Id.* at 15a). Although Judge Lourie would have found "no on-sale bar occurred [because . . . the proposal] . . . was an offer to grant a license under the eventual patent, not an offer to sell the patent and machine" (*id.* at 22a-24a), the panel majority held that "our disposition of the on-sale bar issue . . . relieves us of having to further address this issue." (*Id.* at 16a).

Thus the decision here appealed is not a final judgment in any respect.

II. REASONS FOR DENYING THE PETITION FOR A WRIT OF CERTIORARI

"A petition for a writ of certiorari shall be granted only for compelling reasons." (Supreme Court Rule 10). Supreme Court Rule 10, although "neither controlling nor fully measuring the Court's discretion," provides guidelines as to the "character of the reasons the Court considers" in deciding whether to grant a petition. Included here is whether "a United States court of appeals has entered a decision in conflict with the decision of another United States court of appeals on the same important matter." Also, while not specifically proscribed by Rule 10, this Court has scrupulously avoided the adjudication of purely hypothetical issues not presented or implicated by the facts of the case at bar. This is particularly true where, as here, there is not even a final judgment in place.

In the present case, there are compelling reasons for *denying* Hallmark's petition.

A. The "Question Presented" Is Not Ripe for Review

1. The Petition Is Not Taken from a Final Judgment

Although the judgment below is not final – indeed the case stands remanded to the district court for trial – Hallmark suggests that the Court should "hear this case

now rather than await a final judgment on the merits and further appeal. *See* Sup. Ct. R. 11." (Petition at 9). As is noted in Rule 11,

> a petition for a writ of certiorari . . . before judgment . . . will be granted only upon a showing that the case is of such imperative public importance as to justify deviation from normal appellate practice and to require immediate determination in this Court.

This heightened burden, particularly when applied in view of the reasons set forth below, militates strongly against the granting of the writ.

2. Hallmark's "Question Presented" Is Hypothetical and Is Not Tied to the Facts of this Case

The "Question Presented" as set forth by Hallmark is framed independently of the facts of this case. As noted above, the facts of this case are spare and undisputed: Mr. Goldstein wrote to Hallmark and informed them that he had invented a ribbon curling and shredding machine. He refused to tell Hallmark anything about his machine, including what it was, how it worked, or how much it might cost. He never promoted or advertised his machine publicly. Prior to the critical date he did nothing that would have placed the invention in the possession of the public, even temporarily.

Rather than frame its petition in the context of these facts, Hallmark treats this case as though it has nothing at all to do with Group One's actual conduct. Instead Hallmark comes to this Court under the premise that this Court should undertake to offer a purely advisory

opinion as to *possible* conduct of *others* that *might* trigger the on sale bar. A simple reading of Hallmark's "Question Presented" bears this out:

> Are the circumstances in which an invention is "on sale" within the meaning of 35 U.S.C. § 102(b) limited solely to "an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration,)" as held by the Court of Appeals for the Federal Circuit below, *or do such circumstances also include "commercial activity* which does not rise to the level of a formal 'offer' under contract law principles," *such as* advertising and promotion, as the Federal Circuit had previously stated?

(Petition at (i), emphasis added).

By such a question, what does Hallmark want this Court to do? To say "yes," there may be some as yet undefined circumstances that do not rise to the level defined by the Federal Circuit below and yet should trigger the bar? Does Hallmark want this Court to attempt to define these circumstances, indeed to "offer rules or even binding guidelines . . . which offer would be little more than *obiter dictum*"? (*Id.* at 15a).

Once Hallmark's proffered question is recognized for what it really is, the denial of Hallmark's petition becomes a given. As noted by this Court in *Conway v. California Adult Authority*, 396 U.S. 107, 110 (1969):

> In this state of affairs, we decline to adjudicate this case. Were we to pass upon the purely artificial and hypothetical issue tendered by the petition for certiorari we would not only in effect be

rendering an advisory opinion but also lending ourselves to an unjustifiable intrusion upon the time of this Court.

3. Even a Reversal or Modification of the Federal Circuit's Decision Would Not Affect the Validity of the Group One Patents

Given the purely hypothetical nature of Hallmark's "Question Presented," it should not be surprising that even a grant of the writ likely will still ultimately result in a holding of patent validity in the present case.

By purporting to respect "prior jurisprudence," Hallmark virtually concedes that under the undisputed facts of this case, a holding of patent invalidity cannot be here forthcoming.

The district court below put this issue to rest when it made the following factual finding:

> The indefinite nature of these communications and lack of specific terms, *e.g.*, price is not mentioned, suggests that [the] communications were preliminary proposals or invitations to negotiate a sale of the product. . . . Group One's communications manifest an intent to begin negotiations and solicit preliminary proposals.

(Petition at 46a-49a). One need only compare this finding (which Hallmark does not challenge) with the "prior jurisprudence" of *RCA* (which Hallmark also does not challenge):

> Where there is no sale, a definite offer to sell is an essential requirement of the on sale bar.

887 F.2d at 1072. Were that not enough, the *RCA* Court went on to further craft the rule so as to expressly exclude the Group One/Hallmark communications as described by the district court, i.e.:

> The requirement of a *definite* offer excludes merely indefinite or nebulous discussions about a possible sale.

(*Id.*, emphasis in original).

Unless this Court goes well beyond even Hallmark's hypothetical Question Presented, and decides to overrule *RCA* in its entirety, the Group One patents will survive unscathed. It is respectfully submitted that this Court should not exercise its jurisdiction on certiorari where the ultimate outcome of the case will not be affected by the grant of the writ.

B. The Federal Circuit's Decision Is Not Contrary to any Precedent

1. The Court of Appeals Decision Is Consistent with the Court's Reasoning in *Pfaff*

Hallmark urges strenuously that the Federal Circuit's opinion is contrary to this Court's "reasoning" in *Pfaff*. Rather than offer support for this proposition, however, Hallmark actually explains why *Pfaff*, if anything, *supports* the Federal Circuit's reasoning.

First, Hallmark concedes that *Pfaff* dealt only with "the second ['ready for patenting'] prong of the test." (Petition at 15). To the extent *Pfaff* referred at all to the first "commercial offer for sale" prong, Hallmark's reliance is completely misplaced.

In this regard, Hallmark repeatedly argues that this Court, by referring to a "commercial offer for sale" as the other prong of the test, actually meant that there need not be an "*offer*" at all, and that any "commercial" *activity* is enough to trigger the bar.

Rather than explain this leap of faith, and point out how the statutory "on sale" bar has been expanded by *Pfaff* to include activities that do not even amount to an *offer* for sale, Hallmark quickly pulls back. In actuality (and in Hallmark's own words)

> The *Pfaff* Court, however, used the term "commercial" only to distinguish prohibited offers from experimental activity. 525 U.S. at 67 ("[t]here is no question that the sale was commercial rather than experimental in character").

(Petition at 16). Quite simply, and as conceded by Hallmark, this Court's use in *Pfaff* of the term "commercial offer" was in a context quite removed from any issue, however hypothetical, here presented.

What *Pfaff* did do was acknowledge the public's "interest in providing inventors with a definite standard for determining when a patent application must be filed." 325 U.S. at 56. As to the second prong of the on sale test, the *Pfaff* decision fulfilled this interest. As to the first prong, however, the Federal Circuit correctly noted that even post-*Pfaff* there remained a "vast sea of uncertainty." The Federal Circuit has now removed this uncertainty with a bright-line test.

2. The Federal Circuit Decision Is Consistent with Its Precedent in *RCA*

In its petition, Hallmark states that the Federal Circuit's decision is inconsistent with its earlier precedent as embodied in *RCA*. In actual fact, *RCA* has long stood and continues to stand for a single proposition, i.e.:

> Where there is no sale, a *definite offer to sell* is an *essential requirement* of the on sale bar.

RCA, 887 F.2d at 1062. The Federal Circuit decision in this case left this rule of law intact, and merely clarified what the standard for a "definite offer" should be.

What the Federal Circuit put to rest, however, was the *dictum* in *RCA* that an offer for sale need not "rise to the level of a formal 'offer' under contract law principles." It is this *dictum* that heretofore has spawned a "vast sea of uncertainty" – the district court decision in this case being a prime example of how a court could be misled by *RCA*'s *dictum* into ignoring the "definite offer to sell" requirement of *RCA*.

3. The Federal Circuit Decision Is Consistent with the Other Cases Cited by Hallmark

In its petition, Hallmark avers that "the Federal Circuit decision . . . represents a significant departure from *prior jurisprudence*." (Petition at 10; emphasis added). Given the high barrier to the grant of certiorari, if the decision below were indeed in conflict with even one binding precedent, it would certainly have behooved Hallmark to cite and explain the conflict in detail.

Certainly the Federal Circuit threw down the gauntlet to Hallmark by stating

> In short, there is no binding precedent in this circuit that requires us to accept something less than an offer to contract as constituting an offer for sale as that term is construed for purposes of the on-sale bar of 35 U.S.C. § 102(b).

(*Id.* at 11a). Hallmark not only has failed to find any such precedent, but it comes up with nothing at all that would back up its promise of

> prior expressions of this Court and others . . . dating back 150 years, which have emphasized any form of commercialization by the patent holder prior to the critical date – not a formal contract offer – as the touchstone for applying Section 102(b).

(Petition at 8).

RCA itself, aside from its *dictum*, could have provided the very rule of law now delineated by the Federal Circuit below, since the Federal Circuit there expressly noted that

> RCA acknowledges that FAA could have accepted RCA's proposal which is the characteristics of a definite formal offer.

Under the circumstances, *RCA* is a prime example of a "commercial offer for sale, one which the other party could make into a binding contract by simple acceptance."

At page 16 of its petition, Hallmark cites three more cases which it contends support the proposition that "[d]iscussions with potential customers, participation at

trade shows, making advance sales calls all were expected to start the clock running." Unfortunately for Hallmark, these cases fall well short of the cited mark.

Thus in *General Elec. Co. v. United States*, 206 U.S.P.Q. 260, 269-70 (Ct. Cl. Tr. Div. 1979), the "on sale" holding was based upon actual orders "from seven different companies . . . [which] were filled by delivery . . . prior to the critical date."

Aoki Technical Lab., Inc. v. FMT Corp., 26 F.Supp.2d 319, 325 (D.N.H. 1998) is similarly unhelpful to Hallmark. Apparently cited because of its discussion of the inventor's demonstration of his invention at a trade show (something Mr. Goldstein never did), the holding therein was further based upon "additional evidence of price quotations (oral and written), as well as follow-up calls to potential clients."

In *Strong v. General Electric Co.*, 434 F.2d 1042, 1043-44 (5th Cir. 1970), the court relied upon *actual sales* and deliveries *without restriction*, both prior to the critical date. Under those facts, the court found the patent to be invalid as being "on sale as well as in public use." 434 F.2d at 1045.

Clearly the bright-line standard of the decision below would not change the ultimate outcome of any of these cases.

Elsewhere in its petition, Hallmark cites two district court cases wherein it contends:

> commercial activities demonstrating that an invention was "on sale," but which fell short of a contractual offer for sale, have been found by

> the lower courts to trigger the on sale bar. *See, e.g., Linear Tech. Corp. v. Micrel, Inc.*, 63 F.Supp.2d 1103, 1125 (N.D. Cal. 1999) (promotional activities); *TRW Fin. Sys., Inc. v. Unisys Corp.*, 835 F.Supp. 994, 1003 (E.D. Mich. 1999) (same).

(Petition at 10).

In neither *Linear* nor *TRW* did the district court base its finding of invalidity solely upon "promotional activities." In *Linear*, there were three "pre-critical date orders by Micolong, Neye and Sumsk." 63 F.Supp.2d at 1126. Similarly, in *TRW*, there was an actual pre-critical date *contract* to install the patented system at Crocker Bank (the only issue being whether the contract was for a commercial or experimental system). Again the bright-line standard would have been met in these cases.

Hallmark's reliance upon *Pennock v. Dialogue*, 2 Peters (27 U.S.) 1 (1829) (Petition at 11-12) is likewise misplaced. The language Hallmark quotes from *Pennock* comports *exactly* with the Federal Circuit's decision, and in particularly with respect to the public policy underlying the § 102(b) on sale bar. In *Pennock*, the Supreme Court homed in on the public harm that would result were an inventor

> to hold back from the knowledge of the public the secrets of his invention . . . and make, and sell his invention publicly, and thus gather the whole profits of it, relying upon his superior skill and knowledge of the structure; and then, and then only, when the danger of competition should force him to secure the exclusive right, he should be allowed to take out a patent.

Once again, the Federal Circuit could have looked to *Pennock* for precedential support for its decision below. An inventor that makes and sells his invention publicly, while holding back his secrets, easily crosses the bright line drawn by the decision below.

In sum, the case law to date, whether precedential or selected at random by Hallmark, supports the decision of Federal Circuit below.

C. Hallmark's Doomsday Predictions Are Made Without Regard to the "Public Use" Bar of Section 102(b)

The patent statute, 35 U.S.C. § 102 provides that "[a] person shall be entitled to a patent unless" any one of a number of statutory bars are present. The § 102(b) "on sale" bar is but one of these statutory restrictions to patentability. Of no less import, however, is the bar set forth in the same statute subsection, § 102(b), that no patent shall issue if "the invention was . . . in public use . . . more than one year prior to the date of the application for patent in the United States."

As demonstrated *supra*, Hallmark has been unable to cite a single case wherein the outcome would have been affected by the Federal Circuit's clarification of the on-sale bar trigger. Without any support in the case law, Hallmark conjures various hypothetical conduct which it contends, as night follows day, will be encouraged and permitted by the decision below. Thus according to Hallmark

> under the Court of Appeals' new framework, an inventor could now market an invention

> throughout the land by soliciting potential customers (as was found in the case at bar), attending trade shows, and even parroting verbatim the language of the statute – "My invention is on sale" – without triggering the on sale bar. The Court of Appeals acknowledged that activity of a clear commercial nature, such as "advertising and promoting of a product" – which, prior to its decision, would have been considered clear evidence that an invention was "on sale" – would not trigger the on sale bar. (15a.) Such a result flouts the literal language of the "on sale" bar.

(Petition at 11). Further according to Hallmark

> one could simply run ads in a trade magazine until succeeding in making a sale years later. Under the Federal Circuit's decision, a house with a "For Sale" sign in front would not be "on sale" and the same would be true if such a sign were placed in front of an invention. The Federal Circuit's new test effectively would collapse the "on sale" bar into the "sold" bar.

(*Id.* at 14).

Hallmark's doomsday predictions are not new. They were made by Hallmark in its petition to the Federal Circuit for rehearing *in banc*, and the Federal Circuit denied the petition without dissent. The reason is clear. In both Hallmark petitions – for rehearing *in banc* and for a writ of certiorari – its dire promises were made without reference to or recognition of the *other* § 102(b) bar: the "public use" bar. Under each of the hypotheticals offered up by Hallmark, the conduct envisioned would easily create a "public use" bar without even implicating the

statutory "on sale" bar. Indeed, this is exactly what happened in *Strong* cited by Hallmark in the Federal Circuit and to this Court in support of its "commercial activity" standard.

And this is as it should be. The "public use" and "on sale" prohibitions (to patentability) work independently. Some activities might violate neither, some only one, some both. The fact that the "on sale" bar may not itself reach certain conduct does not mean that the conduct in question is thereby condoned.

Hallmark, by ignoring the express "public use" bar, implores this Court to *expand* the entirely separate "on sale" bar to prevent against any public disclosure of the invention, regardless of whether the disclosure actually places an invention "on sale."

Looking specifically to the § 102(b) "on sale" bar, Congress clearly did not prohibit all "commercially" motivated activity, for to do so would have gone beyond any policy considerations underlying the statute. Product planning, market studies, product brochure printing, sales staff briefing, even patent preparation, are all "commercial" in nature, and yet none are implicated by the statute or the public policy underlying it.

Quite a different result obtains when the *language of the statute* is implicated. In every case cited by Hallmark, there was indeed a "commercial offer for sale, one which the other party could make into a binding contract by simple acceptance," and the "on sale" bar applied.

Even if an inventor refrains from placing his invention on sale, but nonetheless discloses it to the public, the

"public use" bar comes into play. Where he does neither, and where no other statutory bar applies, he is entitled to his patent.

D. Without the Bright-Line Standard, the On Sale Bar Will Remain a Trap for the Unwary

According to Hallmark, inventors will be tempted by the decision below to push the § 102(b) bar to the limit, "to market an invention throughout the land . . . even parroting verbatim the language of the statute – 'My invention is on sale.' " (Petition at 11).

The Federal Circuit, the Court charged with the primary responsibility for interpreting and applying the patent laws, knows otherwise. The "vast sea of uncertainty . . . [that] requires a whole new mode of analysis, whose parameters remain ill-defined" was not churned up by scheming inventors. Rather, it was the accused infringers who, after suit was brought, searched the record and wherever possible pieced together an "on sale" defense. In virtually every reported case involving the on-sale bar, there was not a scintilla of evidence that the inventor knowingly undertook to violate the statute by intentionally undertaking to sell the invention while delaying for as long as possible the preparation and filing of a patent application. Quite to the contrary, the § 102(b) bar has consistently awaited the unwary. Judge Newman described this pre-*Pfaff* and pre-*Group One* state of affairs in *C. R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), *rehearing denied and suggestion for rehearing en banc declined*, 161 F.3d 1380 (Fed. Cir. 1998) as follows:

> The three different views in the three opinions of this panel on the on-sale issue point up the need for a more certain law than today exists. Inventors and those who commercialize inventions should reasonably know when the on-sale bar starts to accrue, instead of awaiting litigation-borne *post hoc* judicial evaluations of the totality of the circumstances, varying with the nature of the invention, the nature of the customer contact, and the judicial weight given to the conflicting policy interests.

Now with a bright-line standard in place, there should be far fewer baseless allegations of patent invalidity, and virtually no excuse for those who do violate the standard. Far from encouraging reckless conduct, the *Group One* test will serve as a notice to all who are willing to listen: "If you have placed your invention on sale, if you have an offer out there that a customer can act upon, file your patent application within a year or lose your rights." That was the bar put in place by Congress; that is the test now.

E. The *Group One* Bright-Line Standard Is Already Providing Certainty to the Patent Law

As noted above, the Federal Circuit expressed its confidence that the application of general contract principles to the first prong of the on-sale bar test would prove both flexible and workable. This confidence was not born in a vacuum, and has not proven to have been misplaced.

In this regard, prior to the decision below, the Federal Circuit had occasion to determine the meaning of an "offer for sale" under the patent statute, albeit under

Section 271(a) of Title 35 ("whoever without authority . . . *offers to sell* . . . any patented invention, within the United States" infringes the patent). Thus in *Rotec Industries, Inc. v. Mitsubishi Corp.*, 215 F.2d 1246, 1254-55 (Fed. Cir. 2000), the Court was faced with the issue of whether an infringing "offer for sale" had been made in the United States. Just as it did in the decision below, the Federal Circuit reasoned that

> Therefore, we similarly define § 271(a)'s "offer to sell" liability according to the norms of traditional contractual analysis.
>
> Our task here is similar to the task presented in *Enercon v. ITC*, 151 F.3d 1376, 47 USPQ2d 1725 (Fed. Cir. 1998). [wherein the Court] . . . turned to traditional sources on the meaning of the term, including dictionaries and the Uniform Commercial Code. *See id.* In this case, Congress has again elected not to provide an explicit definition of the term at issue. As a result, we conclude that the meaning of "offer to sell" is to be interpreted according to its ordinary meaning in contract law, as revealed by traditional sources of authority.

Applying this "ordinary meaning in contract law" to the evidence, the Court had no trouble concluding that there was *no* offer within the meaning of the statute, i.e., the testimony

> does not show that any Defendant communicated a "manifestation of willingness to enter into a bargain, so made as to justify another person in understanding that his assent to that bargain is invited and will conclude it." *Restatement (Second) of Contracts* § 24 (1979)

(215 F.3d at 1257).

Also, following the *Group One* decision below, the Federal Circuit has actually undertaken to implement its bright-line standard. Not only has the standard proven equal to the task, but its application marks the low point of Hallmark's argument. Here Hallmark cites *Scaltech, Inc. v. Retec/Tetra, L.L.C.*, 269 F.3d 1321 (Fed. Cir. 2001), and glibly asserts that

> there is no reason in the policies underlying the on sale bar to treat, as the Federal Circuit has, this case any differently from another case [*Scaltech*] where an offer was made but not accepted- . . . merely because the offer . . . [in the prior case] included a price quote and was "firm for 90 days."

No reason to treat the cases differently indeed! In *Scaltech*, the *Group One* test was first summarized by the Federal Circuit:

> Recently, this court has defined what constitutes an offer for sale for purposes of this statutory bar. "Only an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b)." *Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1048, 59 USPQ2d 1121, 1126 (Fed. Cir. 2001). This issue is governed by federal common law. *Id.* at 1047. *See also Univ. of Colo. Found., Inc. v. Am. Cyanamid Co.*, 196 F.3d 1366, 1372, 52 USPQ2d 1801, 1805 (Fed. Cir. 1999) (concluding that the need for national uniformity in patent law requires the application of federal common law). To determine if the offer is sufficiently

> definite, one must examine the language of a proposal in accordance with the principles of general contract law. *See Group One*, 254 F.3d at 1048. An important relevant source of general contract law for determining whether a "communication or series of communications rises to the level of a commercial offer for sale" is the Uniform Commercial Code ("UCC"). *Id.* at 1047.

The application of this bright-line test to the facts rendered the outcome of patent invalidity clearcut:

> The accompanying formal proposal documents of September 8, 1988, indicated that the "quotation is based on one centrifuge," and that "[t]his offer is firm for 90 days." Likewise, in its November 15, 1988, proposal to Champlin Refining Company, Scaltech's proposal repeated the above phrases regarding the quotation and the duration of the offer.

The facts of *Scaltech* are to be contrasted with those of the present case, where there was no disclosure of the invention, no delivery terms, no price. The result was equally clearcut, but exactly the opposite of that in *Scaltech*. As noted by the Federal Circuit:

> On appeal here, the parties do not dispute the conclusion by the district court that no such commercial offer to sell was made.

(Petition at 15a).

In a word, the *Group One* test works: it readily results in the imposition of the on-sale bar where a real world offer is made prior to the critical date, and just as readily renders it inapplicable where there is no offer capable of acceptance.

III. CONCLUSION

No one denies that the decision below involved an important question of patent law. However, this Court does not revisit and sign off on every decision that is important. The President does that with acts of Congress.

Where, as here, the Federal Circuit has fulfilled its function, and has applied and clarified its precedent and appropriately rejected its non-binding *dictum*, there can be no more fitting imprimatur of the decision below than the denial of Hallmark's Petition.

Respectfully submitted,

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Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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PETITIONER'S REPLY BRIEF

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PETITIONER'S REPLY BRIEF

ARGUMENT

In opposing Hallmark's Petition for Certiorari, Group One argues that review by this Court is not warranted because (1) the Federal Circuit's decision in this case "merely clarified" its prior jurisprudence, (2) the public use bar will alleviate any concern about inventors abusing the on sale bar under the new *Group One* test, and (3) this case is not ripe for Supreme Court review.

None of these arguments is correct. The indisputable fact acknowledged by the Federal Circuit in a subsequent decision and by Respondent's counsel in a published article is that the Federal Circuit's decision in this case has radically changed the law regarding the on sale bar. That change has significant importance which warrants this Court's immediate attention.

I. THE FEDERAL CIRCUIT'S DECISION SIGNIFICANTLY CHANGED THE PRIOR LAW.

The short answer to Group One's mere clarification of prior law contention (Opp. 16) is that the Federal Circuit itself recently acknowledged that its *Group One* decision materially changed the on sale bar law. In *Linear Technology Corp. v. Micrel, Inc.*, No. 00-1045, __ F.3d __, 2001 WL 1669382 (Fed. Cir. Dec. 28, 2001), the Federal Circuit stated point-blank: "[I]n *Group One* . . . this court changed the analysis required to determine whether an offer for sale has occurred." *Id.* at *1. Moreover, the Federal Circuit specifically announced that *RCA Corp. v. Data General Corp.*, 887 F.2d 1056 (Fed. Cir. 1986) ("*RCA*"), was no longer the law:

> "*Group One* held that '[o]nly an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b).' *In so holding, we expressly held that our previous enunciation of the law in RCA Corp. is incorrect in light of Pfaff* [*v. Wells Electronics Inc.*, 525 U.S. 55 (1998)]."

Id. at *5 (citation omitted; emphasis supplied).

Based on the "new legal standard articulated in *Group One*," the Federal Circuit in *Linear* reversed a district court finding of patent invalidity under the on sale bar. *Id.* at *1. In so doing, the Federal Circuit noted that, under *RCA*, the patent in question would indeed have been invalid under the on sale bar—despite the absence of a contractual offer for sale—due to the patent holder's significant commercialization efforts consisting of disseminating product and pricing information to its sales force and international distributors, and contacting customers directly concerning the product:

> "*As an initial matter, we agree with the district court that LTC's activities would have triggered the on-sale*

> *bar under the law as enunciated in RCA Corp.* LTC's significant pre-release efforts at commercialization and its targeted advertising to end-users could have triggered the on-sale bar under *RCA Corp.* even if they did not rise to the level of a contractual offer-for-sale because, as the district court found, they went 'beyond merely nebulous or indefinite discussions about a possible sale.'"

Id. at *6 (citation omitted; emphasis supplied).

That the Federal Circuit's decision in this case has wrought a material change in the law is also apparent in other cases that have considered on sale bar issues after *Group One*. *See, e.g., Jeneric/Pentron, Inc. v. Dillon Co.*, 171 F. Supp. 2d 49, 66-68 (D. Conn. 2001) (finding no on sale bar under *Group One* where patent owner provided samples of the product embodying the invention and included the invention in price lists to solicit sales of the product before the critical date because there were no delivery or quantity terms or an order form).

The sea change in the on sale bar also has been noted by patent practitioners: "In fact, the decision in *Group One Ltd. v. Hallmark Cards, Inc.* has so changed the playing field that several patent lawyers, who wished to remain anonymous, said they're now trying to settle cases." "In The News," *Corporate Counsel*, August 2001, at 13. While ridiculing Hallmark's "doomsday predictions" on how patentees will take advantage of the change in law (Opp. 20-23), counsel for Respondent predicted the same result: "Richard Clark, a partner in Baker Botts's New York office who represented Group One, calls the decision a landmark. 'The court has gone the other way now,' says Clark. 'You can now go out, and hype your invention without the clock ticking.'" "In the News," *Corporate Counsel*, August 2001, at 14.

Furthermore, not only has this case changed the prior law, it has done so in a manner that has led to an evisceration of the sound policy reasons underlying Section 102(b). For

example, in *Jeneric*, the patented invention had been undeniably "on sale" prior to the critical date according to any commonly understood concept of what it means for something to be "on sale." Moreover, under prior jurisprudence, the invention of *Jeneric*, just as the invention in *Linear*, was clearly "on sale." *See, e.g., RCA*, 887 F.2d at 1062; *General Electric Co. v. United States*, 206 USPQ 260, 276-77 (Ct. Cl. Tr. Div. 1979); *Strong v. General Electric Co.*, 434 F.2d 1042, 1043-45, 168 USPQ 8 (5th Cir. 1970); *Aoki Technical Lab., Inc. v. FMT Corp.*, 26 F. Supp. 2d 319, 325 (D.N.H. 1998). In *Jeneric*, however, because a binding purchase order for the product was not issued until after the critical date, the district court, applying *Group One*, looked to hornbook contract law principles and concluded that the patent owner's extensive commercialization activities—advertising goods at a particular price, supplying price quotations, distributing sample goods—did not themselves create a binding contract offer, but constituted instead "invitations to offer or otherwise negotiate," that the patentee was free to accept or reject. 171 F. Supp. 2d at 68.

Comparing the on sale bar deadlines pre-and post-*Group One*, the patent owner in *Jeneric* would have been required to file a patent application by October 1995—one year after submitting the commercial sample to solicit orders (*see, e.g., General Electric Co. v. United States*, 206 USPQ at 276-77)—to avoid the on sale bar. Since it did not do so, under prior law, the patent would have been declared invalid. Under the Federal Circuit's new test, the *Jeneric* patent owner could have waited to file its patent application until August 1997—one year after the accepted purchase order. This is an extension of the pre-filing on sale bar grace period on this invention by almost two years—hardly a result consonant with the statutory policy of limiting the amount of pre-patent filing commercial activities.

The courts' analyses in *Linear* and *Jeneric* also demonstrate why it is ill-conceived to engraft contract law jurisprudence onto the on sale bar test. Offer and acceptance case law developed from situations where one party to a putative contract is attempting to enforce a contract that the other party contends was never created. A court should be reluctant to enforce a putative contract unless there is clear evidence that both parties agreed to be bound by specific terms of an agreement. These considerations are totally lacking with respect to the policies underlying the on sale bar, which seek to assure the prompt and widespread availability of inventions to promote the progress of the sciences and arts. *Pennock v. Dialogue*, 2 Peters (27 U.S.) 1, 19 (1829). Thus, activities placing the product "on sale" under the on sale bar, and under the literal language of the statute, are not the type of activities that suffice to make legally binding contract offers.

Nowhere in Group One's opposition or in the Federal Circuit's opinion is there any articulation of why from a patent law perspective it is either necessary or desirable for the patentee to have available an unlimited grace period prior to the critical date to engage in commercialization activity that does not amount to a formally binding contractual offer, to be followed by an additional one year grace period in which formally binding offers could be pursued.

II. THE PUBLIC USE BAR WILL NOT AMELIORATE THE FEDERAL CIRCUIT'S ERRONEOUS ON SALE BAR TEST.

Group One argues that Hallmark's "doomsday predictions" about the new on sale bar test are ill-founded because the "public use" bar (§ 102(b)) in the patent law will prevent any non-contractual commercialization activity from taking place. (Opp. 8, 21, 22.) The fact that an inventor may also run afoul

of the public use bar while running afoul of the on sale bar, however, does not provide justification for marginalizing the on sale bar.

As Group One notes, the on sale bar and the public use bar work independently of each other, and it is, of course, axiomatic that Congress intended them to address different situations. If the public use bar were sufficient to curb potential patent holders' abuse of pre-patent-filing activities, there would be no need for the on sale bar. This argument simply has nothing to do with the potential harm that likely will flow from the Federal Circuit's new on sale bar standard. It is therefore illogical for Group One to argue that the public use bar operates as a check on the on sale bar, inasmuch as any checking function would take place by happenstance rather than by design. Moreover, Group One's cited examples of non-contractual commercialization activities—"soliciting customers, attending trade shows" (Opp. 8)—would not necessarily implicate the public use bar itself unless the inventor "publicly used" the invention in the course of the customer solicitation or trade show attendance, which Group One avoided in the case at bar.

III. THE QUESTION PRESENTED IS RIPE FOR REVIEW.

Group One's ripeness arguments—there is no final judgment (Opp. 10-11), Hallmark's question is hypothetical (Opp. 11-13), and answering the question presented would not affect the outcome of the case (Opp. 13-14)—are without merit.

Finality is not a requirement to obtaining a writ of certiorari under 28 U.S.C. § 1254(1), as Group One has acknowledged, as long as the Court is satisfied that the question raised is of sufficient importance. The importance of the issue has been discussed in Hallmark's Petition and need not be repeated. Moreover, resolving the on sale bar

issue is fundamental to the ongoing conduct of this litigation, which is another permissible basis for Supreme Court review before entry of a final judgment. *See Land v. Dollar*, 330 U.S. 731, 734 n.2 (1947) (accepting for review case without final judgment because it involved an issue "'fundamental to the further conduct of the case'") (quoting *United States v. General Motors Corp.*, 323 U.S. 373, 377 (1945)); *Larson v. Domestic & Foreign Commerce Corp.*, 337 U.S. 682, 685 n.3 (1949) (same).[1]

As a practical matter, the judgment in this case is "final" as to the on sale bar: Hallmark has no basis upon which to continue to litigate the on sale bar claim in the District Court since the claim has been dismissed by the Federal Circuit. If this Court were to refrain from hearing the on sale bar issue at this time, the next opportunity for Supreme Court review would be after a trial and appeal on infringement and Hallmark's remaining defenses and counterclaim. The issue with respect to whether Group One's activities constituted a commercial offer for sale, however, would be presented to this Court at this later date on precisely the same record as exists today.

Moreover, the question presented is not hypothetical and, in fact, has dispositive repercussions for this aspect of the case. Hallmark has asked this Court to determine the correct legal standard under which an invention is considered "on sale" under 35 U.S.C. § 102(b). There is no question that the legal standard to be applied in this case will have a bearing on

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[1] The parties hereto incorrectly referred to Rule 11 in connection with this Petition. (*See* Petition 9; Opp. 11.) Rule 11 applies to a certiorari petition filed "to review a case pending in a United States court of appeals, before judgment is given in that court." Sup. Ct. R. 11. In this case, judgment already has been entered by the Federal Circuit, so Rule 11 does not apply. *See generally* Robert L. Stern *et al.*, *Supreme Court Practice* § 2.3 (7th ed. 1993).

the outcome of this case.[2] Hallmark has already prevailed on its on sale bar argument in the District Court, which employed the *RCA* analysis. The Federal Circuit did not take issue with the District Court's conclusion that, under *RCA*, the commercial offer for sale prong of the on sale bar test was triggered by the undisputed facts concerning Group One's commercialization activities.

Finally, Group One seeks to make an issue of the fact that Hallmark did not know how Group One's ribbon curling invention worked when Group One repeatedly offered to sell it to Hallmark before the critical date. (Opp. 3, 11.) This is legally irrelevant to the on sale bar analysis. *See King Instrument v. Otari Corp.*, 767 F.2d 853, 860, 226 USPQ 402 (Fed. Cir. 1985) (holding that it is unnecessary that the purchaser have actual knowledge of the invention or understand how the invention worked to trigger the on sale bar). Indeed, products are commonly sold without first disclosing how or why they work and are promoted based on described results or capabilities. Moreover, it is undisputed that, like the purchaser in *King Instrument* who only knew generally what the machine did, Hallmark knew from Group One's communications with Hallmark that Group One had offered it a ribbon curling machine that could make commercial quantities of curled ribbon in a bag, a sample of which Group One had sent to Hallmark prior to the critical date. (*See* Petition 4.)

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[2] Group One's citation to *Conway v. California Adult Authority*, 396 U.S. 107 (1969), is misplaced. In *Conway*, the Court dismissed the writ of certiorari as improvidently granted because the petition misstated the facts underlying the writ, leaving the question presented without any factual basis. *Id.* at 109-10. Here, there is no basis for Group One to claim that the facts underlying the Petition here are not supported in the factual record.

CONCLUSION

The Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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